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S. Hrg. 103–439

NAFTA AND RELATED SIDE AGREEMENTS

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NAFTA and Related Side Agreements, ...

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

LABOR, BUSINESS, AGRICULTURE, AND ENVIRONMENTAL ISSUES RELATING TO NAFTA

SEPTEMBER 15, 21, AND 28, 1993

MAY 4 1994

Printed for the use of the Committee on Finance

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U.S. GOVERNMENT PRINTING OFFICE
75–546—CC WASHINGTON : 1994

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-043908-6

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NAFTA AND RELATED SIDE AGREEMENTS

WEDNESDAY, SEPTEMBER 15, 1993

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:00 a.m., in room SD–406, Dirksen Senate Office Building, Hon. Daniel Patrick Moynihan (chairman of the committee) presiding.

Also present: Senators Baucus, Boren, Bradley, Pryor, Riegle, Rockefeller, Daschle, Conrad, Packwood, Roth, Danforth, Durenberger, Grassley, and Wallop.

[The press release announcing the hearing follows:]

[Press Release No. H–29, September 9, 1993]

FINANCE COMMITTEE ANNOUNCES SERIES OF NAFTA HEARINGS; COMMITTEE ALSO SEEKS COMMENTS ON IMPLEMENTING LEGISLATION

WASHINGTON, DC—Senator Daniel Patrick Moynihan (D–NY), Chairman of the Senate Committee on Finance, announced today that the Committee has scheduled the first in a series of hearings on the North American Free Trade Agreement (NAFTA). Testifying at the hearing will be Secretary of State Warren Christopher, Secretary of the Treasury Lloyd Bentsen, and United States Trade Representative Mickey Kantor.

The hearing will begin at *10:00 a.m. on Wednesday, September 15, 1993,* in room SD–215 of the Dirksen Senate Office Building.

"This initial hearing will give the Clinton Administration the opportunity to make the case for the NAFTA, including the recently concluded side agreements," Senator Moynihan said. "I look forward to hearing from Secretary Christopher, Secretary Bentsen, and Ambassador Kantor concerning how this Agreement advances our economic interests, while also addressing labor, environmental, and related concerns."

"We intend to hold additional Finance Committee hearings on the NAFTA in coming weeks to ensure that the Committee hears from witnesses with a variety of perspectives on this Agreement," Senator Moynihan said. "The NAFTA has received a great deal of attention in the past several months, with extreme claims on both sides. My hope is that these hearings will allow for a full and balanced airing of views, which will enable Members to make informed decisions on the merits of the NAFTA."

"In addition, I invite both the witnesses at these hearings and any other interested parties to submit comments to assist the Finance Committee as it develops legislation to implement this Agreement," Senator Moynihan stated.

The NAFTA was signed by President Bush, Mexican President Carlos Salinas de Gortari, and Canadian Prime Minister Brian Mulroney on December 17, 1992. On August 13, 1993, U.S. Trade Representative Kantor and his Mexican and Canadian counterparts announced the completion of supplemental agreements on the environment, labor matters, and emergency action/import surges.

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. A very good morning to our illustrious colleagues who are going to be testifying before us this morning, and to our guests. The hour of 10:00 o'clock having arrived, we will proceed with this first hearing concerning the North American Free Trade Agreement, with which we begin what the Washington Post this morning describes as "the non-process whereby trade agreements are entered into by the U.S. Government." Specifically, we do not have a trade agreement before us. We know of one which has been signed, or, rather, a sequence of agreements.

Yesterday, the supplemental agreements were signed, and I believe members of the committee have copies. If you have them, in any event, you have only recently received them so you do not have them absorbed.

But, what will happen now is that we will hold hearings until the committee is satisfied that we have heard the views of all those we need to listen to and can learn from. Then we will proceed to draft legislation here and in the House Ways and Means Committee, opened its hearings yesterday. They will do the same.

Then we will go, in effect, to a conference committee, and reach an agreement which will then be sent to the administration and then sent back to us. After this, a timetable begins, a number of working days in which each body must consider and make a determination.

May I simply state—and, given that there's some misunderstanding about this—that when the process arrives at the point that a measure has been sent us from the executive branch, that bill, which is what it will be, must originate in the House of Representatives. That is in the statute. That is a constitutional requirement.

In addition, for purposes of this measure, it should be known that we will have a revenue measure on our hands. The CBO has given us a preliminary estimate over the 5-year period that we treat budgetary matters. The lower tariffs, in this instance, would incur a revenue loss of some $2.5 billion, and that money will have to be found in any agreement to proceed with the measure.

We are a divided house in this regard. The Congress is divided; the public is divided as at no such time, I believe, in the post-war history of the Nation. This is the first time, I think, Mr. Chairman, that we have truly, strongly held different, opposing views. So, we're going to try to proceed with openness, stability, and a search for information.

And, if you're looking for information, one of the first places to look in the Committee on Finance is the former Chairman. I said once and future Chairman, but the reaction to our budget reconciliation bill has been so positive I'm not sure I can promise you that.

Senator Packwood, good morning, sir.

OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S. SENATOR FROM OREGON

Senator PACKWOOD. Mr. Chairman, Congressman Hawley of the Smoot-Hawley tariff, was a Congressman from Oregon. So, I appreciate this opportunity to do penance for that past mistake of 60 years ago. I look forward to strongly supporting NAFTA to make up for that error of a former Oregon Congressman.

The CHAIRMAN. Thank you, sir. And, may I just make the point that Senator Packwood has made—we have learned from a disastrous decision in the 1930's, the Smoot-Hawley tariff, and we have not had a tariff bill on the floor of the Senate since, which suggests a certain amount of institutional rigor and learning.

I am just going to say, Senator Riegle, I see you there, busy at your papers.

OPENING STATEMENT OF HON. DONALD W. RIEGLE, JR., A U.S. SENATOR FROM MICHIGAN

Senator RIEGLE. Thank you very much, Mr. Chairman. I want to subscribe to the civil tone and sort of format that you have laid out in terms of seeking to get all of the facts out on the table on an issue that is terribly divisive, and, I think, is a matter of enormous danger to our country.

I come from a State that is essentially a manufacturing State, but we also have major agricultural interests as well. And I find, as I examine this proposed Bush NAFTA package, that the damage that will be caused, not just in my State, but, very importantly in my State, but across the country, will set us back in ways that we are not going to be able to deal with effectively. So, I am convinced that the package itself cannot work in a way that will be positive, but, in fact, will cause great damage.

I think the side agreements are really meaningless. Yesterday, Senator Metzenbaum, who is a very good lawyer as you all know, called them a farce. I think they cannot begin to deal with the disparities of trying to integrate a Third World economy with a Third World wage standard, and workplace standard, and environmental standard into a free trade agreement with a modern nation.

And no one else has ever tried this. When Turkey—which is in a comparable situation as Mexico—asked to come into the European common market they were turned away because the differentials were just so vast, as they are here in this case.

I would ask, at the end of my remarks, that two particular pieces of information be put into the record today. One, is an article by Louis Ustell in the New York Times back in March of this year, talking about how northern Mexico is attracting not just low-wage jobs in the United States, but high-tech jobs, and how modern factories down there with the low wage levels are strip mining the job base of this country, not just at the low end level, but also in the electronics area, and, certainly, in the automobile area and a lot of others.

Also, the Nation Magazine, which the Chairman would be familiar with, which is a distinguished journal. It's been around for many, many years. It has published an editorial and an article in the issue of June 14th, to its opposition to NAFTA because of the analysis that they have done as to the damage this would do to our economy.

They do a very fine job here in laying out how it is that the economic elite of the country have really mobilized against the working people of this country to promote this agreement.

In fact, if you go back to last year, remember our hearings here where we had—I do not say this disrespectfully to them, but it makes the point—T. Boone Pickens here, because he talked about some of the oil deals that he was working on down in Mexico City, so he was here as an advocate. We had Mr. Jim Robinson, at that time running American Express, who was here. And they were talking about the investment banking deals they were doing as they were financing new plant construction down in Mexico.

But we have not heard from the displaced workers. And I would hope, Mr. Chairman, that before we finish the hearings that we will not just dwell on the technical, arcane details of this package, but that we will actually get the walking wounded in here.

Get them in from your State. You have had a typewriter plant close and go to Mexico. I have had, now, Ford, Chrysler and GM locate over 70 plants in Mexico. I have lost tens of thousands of manufacturing jobs in my State. And that is just a down payment on what will happen if this is passed.

So, finally, just let me say this. I listened, yesterday, to the presentation. And, as sort of the economic elite crowd is assembled to try to push this through together with a lot of lobbying money that has been well-documented by the Wall Street Journal in terms of every lobbyist in town on both sides having been signed on by the Mexican Government to oil the process and get this through here.

We cannot allow that to happen. I know you will not allow that to happen. I know Senator Hollings, who is here, feels strongly about it in opposition, as do I. We will be having a major public meeting on this subject in the State capital of my State, in Lansing, Michigan this Saturday at 1:00 o'clock. The public is invited. I expect we will have several thousand people there to listen in detail to the reasons why this will be so damaging to our country.

And I would hope that, by the time all those facts are out, that we will continue to see the vote counts erode, as they are now, I believe, eroding here in the Senate, and, in both the House and the Senate we will decide to turn this down, start over with a different kind of trade discussion.

Senator Hollings has suggested a common market arrangement where we would, first, undertake to bring the living standards and wage standards in Mexico up to a level comparable to ours so that we could then go into an authentic free trade arrangement, such as we have already done with Canada. And, of course, I supported that at that time. But I will have more to say. I appreciate the courtesy of the Chairman. But this is a deadly serious issue. This is a loaded gun aimed at the workers of this country, and we have got to stop it.

The CHAIRMAN. I thank Senator Riegle most emphatically, and want to agree with him that we will place those items in the record. Do we have to put the entire issue of the Nation in the record?

Senator RIEGLE. Well, let us have it attached so that anyone who wants to get it is able to do so.

The CHAIRMAN. Good. We are happy to do that.

[The information appears in the appendix.]

The CHAIRMAN. We will try to see that these hearings are representative of all those involved and not just those who can fly in in their own plane. I should mention that we have invited Mr. Perot, whom I believe will be in Lansing on Saturday. Will the members of the committee make a little effort to let us know who they would like to hear?

Senator RIEGLE. I thank the Chairman for that.

The CHAIRMAN. I thank you. Senator Bradley.

Senator BRADLEY. When did you say Mr. Perot is coming?

The CHAIRMAN. We have invited him to come.

Senator BRADLEY. I see.

The CHAIRMAN. Senator Danforth.

OPENING STATEMENT OF HON. JOHN C. DANFORTH, A U.S. SENATOR FROM MISSOURI

Senator DANFORTH. Mr. Chairman, I am delighted that Ross Perot is coming. When you talk about big money interests who are on one side or another of this particular battle, he is the biggest of the big, and I am delighted that he will be coming before this committee. I want to look under the hood and see what is there. [Laughter.]

Mr. Chairman, those of us who were at the White House yesterday and heard the presentation of the President were gratified at the strength of the President's presentation. It was really one of the strongest, most forceful presentations I have ever heard. And the fact that he was surrounded by three former Presidents made his presentation all the more impressive.

Today, three members of the President's Cabinet are going to be appearing before this committee. I know that in past weeks some people have said, well, is the President really committed to this, is this important to the President, is this significant as far as his Presidency is concerned? And the answer to that question is, yes.

I know that, during the budget debate, much was made about, well, should we support the President or not support the President? I am not of the President's party, but I would simply point out that, from the standpoint of this President and this Presidency, whether or not we end up adopting NAFTA is a matter that is viewed by this administration and by President Clinton as critically important.

The second point that I would make is that I think that, while Senator Riegle and I disagree on the analysis and on what our votes will be, we do agree on the framing of the fundamental issue. The question is jobs. The question is whether NAFTA will create jobs, or whether it will cost jobs.

I believe that these hearings will show that NAFTA will create jobs, and that exactly what Senator Riegle and others have complained about is the status quo, and that the status quo is what is unacceptable.

The status quo, where Mexican tariffs are 2½ times U.S. tariffs; the status quo with the Maquiladora program serving as a platform for exports to the United States; the status quo where U.S. agricultural exports are subject to very unfair licensing requirements in Mexico. That status quo is costing our economy and is costing American workers; not the big shots, but the average employees who are losing jobs. I think it is an undisputed fact that, for every billion dollars of exports, 20,000 jobs are created within the United States. And, therefore, I think that this really is a job issue.

Finally, I would say that one of the newspapers today used a word which I think this is ultimately all about, and the word is vision. The contest here is about two different visions of our country, what America is all about, how we feel about this country.

Do we believe that an America that has just won the Cold War, that is the lone superpower in the world, is suddenly a helpless giant; bloated, uncompetitive, waning, gasping for air and hiding behind the measly 4 percent tariff program which we now have, which opponents of NAFTA suddenly believe is the necessary protection for an uncompetitive American industry and an uncompetitive American work force?

I, for one, Mr. Chairman, do not share that truly pitiful view of the United States of America and of our ability to compete. I believe that we can outsell anybody in the world if given the opportunity, and I believe that NAFTA gives us that opportunity.

The CHAIRMAN. Thank you, Senator Danforth, very much, indeed. May I make the point that we do not have any fixed dates for any of the persons we have invited? Governor Weld of Massachusetts might be able to fit into one of our days. And we can change our schedules so we can hear any individual that anybody on this committee wants to hear.

Senator Daschle.

OPENING STATEMENT OF HON. TOM DASCHLE, A U.S. SENATOR FROM SOUTH DAKOTA

Senator DASCHLE. Thank you, Mr. Chairman. Let me compliment you for calling this hearing as early as you have. I, like many others, appreciate very much your leadership in working our way through this very difficult task. I hope that we can sift reality from perception and substance from myth.

I think the statements this morning illustrate two points already. First, that this could be one of the most controversial trade agreements to be debated in this century. I do not think anyone in this room can predict the outcome this morning.

Polls as recently as this morning show that Americans are very skeptical. They are dubious of claims of job growth; if anything, they anticipate job loss. They wonder out loud how we can maintain U.S. jobs at four to five times the pay of comparable jobs in Mexico.

They are deeply concerned about businesses that take advantage of very limited environmental regulation in Mexico. The so-called side agreements represent, in my view, a significant step in addressing the substance of the problem, but it remains to be seen how well we can address the perception.

The second point, raised already this morning, I think, is that the differences that exist on this committee and in this body are philosophical. They certainly are not political. That, in my view, is a refreshing change.

At long last, I think the country will witness what I hope will be a very healthy debate about the advantages and the disadvantages, the facts and the myths of a new trade agreement, not the rancorous partisanship that we have witnessed all too often in the last several years.

My support will be determined not only by how effectively we address the issues of jobs and of environmental regulation, but also the issue of agriculture. South Dakota and the upper Midwest have been affected detrimentally in many respects as a result of the arrangement that we have made with Canada and, specifically, the importation of wheat.

Estimates range as high as $600 million in the cost to agriculture of Canadian imported wheat. Yet, thus far, we have not adequately addressed the concerns of many in the upper Midwest in the course of our analysis of the ramifications of new agreements with Canada and Mexico on agriculture.

I am very hopeful that, over the course of this hearing and other hearings to be scheduled, this is an issue that will be raised, effectively addressed, and dealt with in an effective and successful way because I truly would like very much, on that day, to vote in favor of this agreement.

I thank you, Mr. Chairman.

The CHAIRMAN. I thank you, Senator Daschle. And, may I especially thank you for the point that this is an agreement with Canada, as well as with Mexico. And we want to keep all those things in mind, as does your colleague, Senator Conrad. Sir.

OPENING STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. Thank you, Mr. Chairman. I, too, welcome the opportunity to begin a debate that is important to the country. I think it has certainly started out on a high plain. I hope it continues at that level. I watched with great interest the speeches yesterday at the White House.

Mr. Chairman and members of the committee, people in my State are deeply skeptical because they have seen the real-life results of a so-called free trade agreement. So-called, because that is what the Canadian Free Trade Agreement suggests by way of its title, that it is a free trade agreement.

We have had a bitter experience with that agreement. We have witnessed an absolute flood tide of Canadian grain coming into our State, truckload after truckload, and we are not able to send one bushel north.

Now, that is not free trade. They have gone from zero percent of the U.S. durum market to 25 percent, not because they are more competitive, not because they are more efficient, but because of defects in the agreement. Defects in the agreement. It is not a free trade agreement so much as a negotiated trade agreement. And, very frankly, our side lost the negotiations with respect to agriculture.

Unfortunately, those defects have not been corrected in this agreement. They have not been addressed. The result is that Canada has been the primary beneficiary of the growth of Mexican demand for wheat.

Now, Mr. Chairman, I am not here just to talk about wheat, although it is critically important to my State's economy. Dry edible beans are treated unfairly in this agreement; potatoes are treated unfairly in this agreement; sugar is treated unfairly in this agreement. Now, Mr. Chairman, I would very much like to see those issues addressed before we reach conclusion here.

In addition to those issues, I have grave concerns about the sanitary-phyto-sanitary treatment in this agreement. We have seen, with E. coli breakouts in this country, how very serious threats to the safety of the food supply can be to the people of this country. On paper it looks great, until you examine the enforcement mechanism. The enforcement mechanism is very weak.

Finally, Mr. Chairman, I have a very real concern about whether a country that has a $2.00 an hour effective wage, which is the case in Mexico, I am told, can come together with a country that has a $16 an hour average wage, including benefits, which is the case in United States. I think that, really, is at the heart of this discussion. Are we going to put undue pressure on blue collar jobs in this country? What is the effect going to be on a whole segment of our population?

Let me just say, I had no doubt when the Canadian Free Trade Agreement was before us, that it was good for the country and bad for my State. That presented me with a very difficult choice. Ultimately, I decided the people of my State sent me to represent them and I was duty-bound to oppose the Canadian Free Trade Agreement.

With the NAFTA agreement, frankly, I am not sure how it falls. I am not sure it is good for the country, even. I am convinced that, at this point, it is bad for my State. And, until and unless those concerns are addressed, I will be forced to oppose it.

I thank the Chairman.

The CHAIRMAN. Thank you, Senator Conrad.

Senator DURENBERGER. Good morning, sir.

OPENING STATEMENT OF HON. DAVE DURENBERGER, A U.S. SENATOR FROM MINNESOTA

Senator DURENBERGER. Mr. Chairman, thank you, and thanks for this opportunity. I have just been listening to and making a list of some of the characterizations I have been hearing of this agreement. They come down on sort of opposites: substance versus perception; fact versus myth; vision versus myopic; excitement versus frightened; hopeful versus skeptical; fair versus unfair; tomorrow versus today.

I want to endorse the last thing that I heard my colleague from Missouri say about vision, hopefulness, fairness, tomorrow, excitement, fact, substance, and say I am awfully glad to be on a committee on which we always have to deal with tomorrow. There is very little we can do in this committee that is good that deals only with today, whether it is tax, trade, or whatever it is.

I have also lived on this committee through the period of time in which the executive branch did all of the tomorrow work and we sort of just responded to it. I lived through the period of time when the Republicans were in the majority that Republicans on this side of the aisle led the battle to involve the Congress in international trade policy. And the Senator from Missouri, our colleagues from Oregon and from Kansas led that battle. We are in the middle of dealing with tomorrow's issues because of their leadership.

I hope that, in the spirit with which this committee—and our colleague from South Dakota, I think, has already referenced this—has always dealt in a nonpartisan way with these issues. It is tomorrow that is going to win out, and I hope that for North Dakota, South Dakota, Minnesota, and for agricultural producers and everyone else.

I believe that the genius in what we make in our country can only be realized by free and fair trade around the world. I hope and I trust that this agreement will meet those objectives.

The CHAIRMAN. Thank you, Senator Durenberger. And, next, is Senator Bradley.

OPENING STATEMENT OF HON. BILL BRADLEY, A U.S. SENATOR FROM NEW JERSEY

Senator BRADLEY. Mr. Chairman, thank you very much. I am glad that you have called the hearings today and that, in the coming weeks, we will have an opportunity to look at this agreement in detail and to debate its future in this Congress, and, frankly, the future of North America.

I could not help but be struck yesterday at the White House when we had four Presidents each stand, and, in their own ways, give ringing endorsement to this treaty; two Democrats, two Republicans; people coming from different parts of this country, different places ideologically in many ways, but seeing the absolute importance to the future of this country to ratify this treaty.

I do not know when that has ever occurred before. It was a stunning moment. It was a stunning moment for me. And I think once you have been President of the United States you probably have a little different view of the national interest than you do when you are representing a particular State, or a particular district, or a particular industry that is concentrated in your district.

And I think it is wise for us to pay heed to those statements of what is in the national interest, spoken yesterday by the four people who have defended that national interest in the fullest sense, through their terms as President of the United States.

I think that the debate should focus on the facts and not on the fears. I think that that is very important. The reality is, what is happening in the United States today is happening in a lot of developed countries around the world. It is happening in Europe, happening in Japan.

We are in the middle of a very dramatic economic transformation, probably the biggest one since the late 18th century. And government is impugned in many places. It creates an environment where those who want to play on anxieties are able to do so. I do not think that we should yield to that in this committee. I think we should keep the focus on what the facts are.

There have been a lot of charges leveled at this treaty, that it will cost jobs, it will harm the environment, it will increase illegal immigration. The fact is, Mr. Chairman, I think all of those are wrong. I think the allegations are really a reflection of the anxieties I was talking about, anxieties about problems that are not caused by NAFTA and will not be helped by defeating NAFTA.

In terms of the economy, I believe that this agreement will create jobs in the United States, a net increase of jobs. Exports have increased from 12 to 40 billion in the last 5 or 6 years, and the United States has gone from a deficit of $5.7 billion to a surplus of $5.4 billion; 700,000 jobs are now tied directly to exports to Mexico.

The reality is that, even in this short-term jobs calculation, I think the United States comes out a winner. Whether it's 300,000 net, or 200,000 net, or 400,000 net, almost all of the studies have the United States coming out a winner. That is 200,000, 400,000, out of 104 million jobs.

So, we have to keep that in perspective as well. But the issue is not just the bilateral job count, the issue—and this is where the vision comes in, in my view, when it comes to the economy—is, what about the next 20 years? The real threat to American jobs is not Mexico, with an economy one-twentieth the size of the United States. The threat to American jobs comes from Europe, from Japan, from China.

The question is, are we better off in that competition, which is going to be the real test of our ability to hold and create jobs, with or without NAFTA? I believe we are much better off with NAFTA, that we will be much more competitive. We will have much higher wage jobs. So, in the economy, I feel that if we really look at these facts we are going to come out strongly for NAFTA.

On the environment, nobody is making the argument that, without NAFTA, Mexico is going to have a cleaner environment. Nobody has made that argument. Without NAFTA, Mexico is going to have a cleaner environment. Nobody is making that argument. The fact is, as Mexico becomes more prosperous, it will be able to afford more environmental cleanup.

The side agreements—and I see Senator Baucus here—on the environment are really landmark pieces of international trade negotiation. And I believe that there is no question that the part that allows us to ensure that Mexico enforces its environmental laws will give us some real guarantee of progress.

In terms of illegal immigration, there is only one fact you have to focus on. Half the population of Mexico is under the age of 19. Half the population of Mexico is under the age of 19. If jobs are not created in Mexico, there is only one place they are going to head: north. Inevitably, that is going to happen if the economy of Mexico is not growing and jobs are not being created in Mexico.

And, when they come north, whose jobs are they going to take? Not the research scientists. They are going to take the minimum wage jobs. They are going to take the jobs that will be displaced because they are illegal and working for below minimum wage.

When it comes to the poorest people in this country, this agreement guarantees them some opportunity. Without this agreement, their jobs are going to be in jeopardy with a wave of illegal immigration.

So, I think that, on the three issues of the economy, the environment, and immigration, that NAFTA deserves support. On the issue of foreign policy—and I know that Secretary Christopher is going to be here and I am anxious to hear what he has to say, but I do not know if people understand the seat changes taking place in Mexico.

If anybody goes to Mexico City, I urge you to go to the Museum of Intervention. It is a museum in Mexico City that documents the U.S. interventions in Mexico over the life of Mexico. You cannot go through the museum without understanding how a superficial and visceral anti-Americanism has characterized Mexican politics for a generation.

Now things are being changed. Now you have a country that has reached out and said, let us be a partner. You have a government that has opened its economy, has reduced its budget deficit the equivalent of three Gramm-Rudmans. Three Gramm-Rudmans. It has attacked corruption, has moved along the direction towards a fully democratic society. It is not there yet, but has moved along in the direction.

So, Mr. Chairman, I think that, in terms of our foreign policy interests, this agreement clearly serves for greater stability. And, I might say, finally, that it seems to me that as you struggle for a framework in the post-Cold War world, that one of the things that the post-Cold War world has got to be about, is about building bridges with other people and not holding ourselves apart from them, finding some kind of workable relationship.

That, I think, is embodied in this agreement, the beginning of that possibility. And, if you agree with Samuel Huntington, your old colleague, who says the age of ideology is over and the age of clashes of civilization are in, we have a unique opportunity here that is not available to the other so called civilizations.

Europe is not going to combine with an Islamic civilization; Confucian and China are not interested in it; Japan is a Buddhist island. It is not an idiosyncratic culture. It is not going to combine.

We have an opportunity here, with a slightly different arm of western tradition, to enrich our own culture and to be able to lead the world by the power of a pluralistic example that is not available to other countries if we begin the process with this agreement.

Mr. Chairman, other than that, I do not have many strong feelings on this issue. [Laughter.]

But I hope that we do keep the focus on the facts.

The CHAIRMAN. I hope we can keep our attention to those facts at the level of which you have just displayed, sir. It is most appreciated.

Senator RIEGLE. Mr. Chairman, if I might, I know there are other——

The CHAIRMAN. Of course you can. Please.

Senator RIEGLE. And only because I appreciate the statement Bill has made, and it was a statement that was of very considerable length, much of which I agree with.

The CHAIRMAN. We have had no lights.

Senator RIEGLE. I understand. I understand. I simply want to say that the very things that were being talked about there in an international sense we do not have in our own society, we do not have in our own communities. I have the highest level of child poverty in the city of Detroit than of any city in this Nation.

And, so, I would hope that when we sort of put out these cosmic visions that we think about our own people, and not at some abstract time in the future, but now. I did not get into that before because I did not want to trespass on the time. But I feel very strongly about it.

So, if we are going to get into that issue, I am happy to take the time to do it. But we have people in this country, this minute, who need help and are getting none, and will get none under this package. I just appreciate the Chairman's——

The CHAIRMAN. Could I just say that we have all the time any member of this committee needs? I am conscious of our esteemed colleagues from South Carolina and Michigan who are going to speak. But, other than that, we will stay right here and those people in the back room can just stay in the back room. Senator Rockefeller.

Senator ROCKEFELLER. Mr. Chairman, I have no statement.

The CHAIRMAN. Thank you, sir. Well, then, the Chairman of our Subcommittee on Trade and the Chairman of the Committee on Environment and Public Works, Senator Baucus.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you very much, Mr. Chairman. I will be very brief.

Not too long ago, Mr. Chairman, I had grave reservations about NAFTA, particularly because, in my judgment, labor provisions, and, particularly, environmental provisions, were not adequately dealt with.

I think the previous administration, to some degree, rushed the preliminary signing, the initialing of the agreement in an attempt to gain political advantage, and, in so doing, left open some glaring loopholes and did not attend to certain problems that should have been addressed. One of the loopholes, frankly, is the sugar provision, which I think will be dealt with in the implementing legislation.

However, the environmental side agreements, I think, are much stronger. I think the administration should be commended; President Salinas should be commended. I think they are extremely important, and I do not think that the American people realize just how precedential and how far reaching they are. Therefore, I think they should be supported.

The labor provisions are not as strong as some would like, but, on balance, it is my very firm belief that American workers would be better off with NAFTA than they will be without NAFTA. Very simple.

It is for that basic reason I think NAFTA will pass. I am confident NAFTA will pass. I know NAFTA will pass. It will pass because after the smoke has cleared and after the dust has settled American people are going to realize that the United States is better off, its people are better off, the environment is better off with NAFTA than without NAFTA. It is that simple. That is what it all comes down to.

I know some are concerned about job loss to Mexico. Some say that lower wages in Mexico are going to draw American jobs to Mexico. The fact is, that it is much less likely with NAFTA than without NAFTA, very simply, because Mexico has agreed to tie wage increases to productivity. No other country has agreed to do that. Mexican wage rates will rise. They will rise very significantly with NAFTA.

In addition, the environmental provisions are not only going to protect the environment, the environmental provisions are going to level the playing field so Mexican companies are less likely to take advantage of weaker environmental enforcement. That will help prevent American jobs from moving south.

In addition, many Americans, in order to avoid trade barriers, build plants offshore and go to other countries. NAFTA will make that much less likely because NAFTA reduces trade barriers. Companies have less incentive to go to Mexico to build plants.

So, however you slice it, after the dust settles and the smoke clears—and I know Ross Perot has already had his day—once the facts get out and the misperceptions clear up and we deal, also, with some other agricultural issues that are very important to northern tier States, particularly problems with Canadian wheat, I believe that the majority of American people, and certainly a majority of the U.S. Congress, are going to realize that this country is better off with NAFTA than without.

In addition, there are the basic questions that Senator Bradley alluded to. How can we, as Americans, ask Japan to exercise more world leadership if we turn thumbs down on a good faith attempt to negotiate a trade agreement with Mexico?

How can we, as Americans, ask the Europeans in the Uruguay Round, or the French, to back off on subsidies of agriculture, for example, or other countries to open up for American services? How can we ask other countries to take leadership roles if we relinquish ours?

Now that the Cold War is over, the definitions of leadership are slightly changing. They include not only military security, military presence, as we should continue in various parts of the globe to some degree, but they also include economic leadership and economic presence in all its various forms. And part of that is negotiating and concluding good faith trade agreements.

So, both are important for foreign policy. But, more importantly, for the American workers' pocketbook level, America is better off with NAFTA than without NAFTA. And I am very proud, frankly, that this administration has concluded this agreement. I am proud to foresee the day when this country does pass this agreement.

The CHAIRMAN. We thank you, Senator Baucus. And, there being no further statements or comments, our esteemed colleague, the Chairman of the Committee on Commerce, has been very patient. We welcome you, Senator Hollings. You proceed at whatever length your own schedule permits.

STATEMENT OF HON. ERNEST F. HOLLINGS, A U.S. SENATOR FROM SOUTH CAROLINA

Senator HOLLINGS. You are very gracious, Mr. Chairman. I thank you, and I thank all the members of this committee because you have got more important witnesses from the administration to appear. So, I will ask consent that my prepared comments be included in the record, and I will try to summarize.

The CHAIRMAN. I most certainly will do that, but I do not think you would mind my pointing out that you are one of those who is going to vote on this matter.

Senator HOLLINGS. Thank heavens. I wish I could carry more votes with me, too. The temptation is great. Everybody says—and you have a civilized hearing here—if you are against NAFTA you are a demagogue. When you read the morning coverage, they say those who are with NAFTA, they are with vision, and trade optimists. And those who oppose NAFTA are without vision and are trade pessimists.

I speak from hard experience. I started testifying in this regard 34 years ago under the Eisenhower administration in the old International Tariff Commission. Tom Dewey ran me around the room, representing the Japanese.

And, at that time, we were really threatened because the domestic consumption of textiles would soon be represented 10 percent by imports, and if it exceeded the 10 percent we were gone. Well, today, two-thirds of clothing in the room here are imported; 84 percent of the shoes.

And all this child's talk about me losing jobs. We can get into that very easily, Mr. Chairman, but I think we ought to really get on target here with respect to what really is bolstering, what is preserving the status quo and what is for real change in trying to bring Mexico into the community of nations economically.

President Carter really made a very eloquent statement yesterday in the beginning with respect to democracy and human rights. Then, coming down on the side of NAFTA, like Bossie the cow, he was given a full pail and kicked it over. For 60 years now, we have heard the same thing about promoting democracy, but we have seen little change.

I heard that litany from the distinguished Senator here from New Jersey of hope, vision, future, and all of these things. "Just go down and look through the museum." Just go over to the Congressional Research Service and look at the statements of these past Presidents, all of them talking about the new leader in Mexico representing change, and how, now, they are trying so hard, and if we did not support them it was going to be a disaster.

Roosevelt, with the Good Neighbor policy; Eisenhower, with Operation Panamerica; President John Kennedy, Allegro de Progresso; Ronald Reagan, with the Caribbean Basin Initiative.

They have all been premised on the idea that if we could get money down there and money would get to the poor, the poor would become middle class and then the middle class would bring about democracy. And we have learned that this does not work. I can go back, now, to observations of how it did not work, that President Kennedy made, and many others made. It is in the prepared statement here.

But when you send that money down in these Latin countries, it goes to the generals, it goes to the junta, and, in this case, to the PRI, Institutional Revolutionary Party. And it is like delivering lettuce by way of a rabbit; it does not get to the hungry poor. It ends up in Geneva, and then the rulers are gone and we get new ones to come. They talk, now, about Salinas. I think that everybody should understand, this time next year you will never hear of Salinas again. They will have had the election.

As the famous Peruvian writer, Mario Yargas Llosa stated, "It is the permanence of the party, not a man, a party that is immovable." He called Mexico the perfect dictatorship, with all the facade, all the trappings and everything else of a free government, but totally dedicated against any kind of free government.

And the Chairman of this distinguished committee said it best: how can you have free trade when you cannot even have a free election? Mexico does not have free elections; we do. They do not have free press; we do. They do not have a free labor movement or independent unions; we do. They do not have a clean judiciary—it has been characterized in articles as most corrupt—we do.

And, when Senator Danforth talks about being competitive the worker, the worker, the worker we just squeal and holler and whine that we cannot compete. Wait a minute. Go over to the Department of Labor where the distinguished Chairman served as Under Secretary.

And the Department of Labor says the most competitive industrial worker in the world is in the United States, and Japan is number eight. Get your mind off of who is competitive. We know about competition. I have been through the best of the best plants, including the most productive GE plant. The entire system is in Florence, South Carolina making MRI's, for export. Everybody is talking about exports as if we do not like them. The Florence plant exports the majority of its production to Tokyo. We know all about exports and we know about competition.

What is not competing is you and me—the government here. Oh, we come around with parental leave, plant closing notice, protections for disabled Americans, minimum wage, price controls, the matter of health care, clean air, clean water. Just go down the list of all the things.

A restaurant group came in to see me yesterday and they had two sheets of regulations. I have never seen so many requirements. Now, we favor those. I am not disputing that. We all, Republicans and Democrats, are for the minimum wage, and what have you. That goes on to the cost of production. And when, by cracky, you get into the global competition, then you have made business uncompetitive.

The industrial worker is not uncompetitive; the government of the United States is. It is hard to get through the Senatorial mind, that if you do not have, in a legal sense, then, the capacity, you cannot contract. We learn in freshman law, Senator, that a minor cannot contract, does not have the capacity.

In the context of free trade and free markets, where you do not have any of those freedoms, but you have total control by the government, then how do you provide Mexico with the capacity to contract? Well, in Europe, they found out after a trial, what you call EFTA, the European Free Trade Agreement, that, as Lester Thurow says, free trade agreements do not work. The common market approach is a valid approach.

So, the tried and true method is a common market for the Americas, and we have introduced a bill and we have some distinguished co-sponsors and we are beginning to educate those who have not been able to turn their attention to this particular problem.

With a common market you have a development fund. In Europe they put in the monies for these countries to raise living standards while developing the institutions of a free society, independent labor movements, free elections, free press, clean judiciary, and other things of that kind.

In Spain, they applied for 23 years to come into that common market. They had to get rid of Franco and get a free election before they were admitted. It took 7 years for Portugal and Greece, and we could go down the list.

But the point is, this is what we really need—and I am interested in Mexico; we all are. It is more important than the People's Republic of China, the Pacific Rim, and the other places where we are making investments. We ought to be investing down there. And the reason they are not investing more is they do not have that insurance that NAFTA will give them, that insurance policy of binding arbitration. That is that Chapter 11 of NAFTA. Read it. Without that investment chapter you would not have a NAFTA agreement. You would have everybody in unanimity up here opposing it. And that is why businesses have not gone down.

This is the rebuttal to the statement, "They can all go now; why don't they all go?" Oh, no. They do not all go now. If you are big, and you are rich, and you are blue chip, and you are General Motors, yes, you can put 41 plants down there. But the average industry is not going to take the risk. They are not that wealthy.

But, getting on quickly, a common market plan would include some debt forgiveness. If we can forgive Poland $40 billion, several billion in India when the distinguished Chairman was Ambassador, $7 billion for Egypt in the Gulf War we should forgive some Mexican debt. Their debt now has gone up. It was down to $80 billion; it has gone up to $120 billion down there in Mexico.

And all the revenues reaped from exports, instead of coming staying in Mexico, are going out of the country on paying foreign debt. Look at the record. We need to have some Brady plan, but the Brady plan does not go far enough. We need to have debt forgiveness.

We need to have the coordination of the finance ministers with respect to cooperation on exchange rates so you do not devalue your currency and ruin the economies of your associates or other partners in the common market. And we could discuss further issues there.

But you quickly say, wait a minute. Salinas has made tremendous strides for democracy. Not so. Huh-uh. Go, please, to this year's State Department report on human rights in Mexico. We did not make it. You did not make it; probably, it was made by the previous administration—the same administration that negotiated this treaty.

It was more or less their minions who made it. But it is a violent report. It says, "To maintain power, the PRI continues to practice electoral fraud." Along this line, I have asked the President to send Jimmy Carter down there to audit that election next July. He is good about that. He does not know anything about trade, but he knows a lot about honesty.

Torture. "The most commonly used methods include threats, beatings, asphyxiation, electric shock, and frequent incidents of arbitrary arrest and imprisonment." Well, if there is any doubt about it, look, then, at the U.N. report on torture. The United Nations is very critical of Mexico's record of what they call "torture with impunity."

You say, well, those are human rights and those folks are always over-sensitive. But let me go, right now, to one of the most eminent writers, just one little quote, in the October issue of Foreign Affairs, by Jorge Castenada. He taught at Princeton, and now he is a professor of international relations at the University of Mexico in Mexico City.

"Mexico's underlying problems persist. It retains a largely corrupt and unchallenged state that possesses only the merest trappings of the rule of law. The enduring obstacles toward Mexico's modernization, its repeated failure to transfer power democratically or to remedy ancestral injustice of its society remain, and will require Mexico to continue to change itself with or without a trade accord."

The proper trade accord is the common market approach where we can help them do those things.

If you were the government and trying to make it work, you would have to keep the wages and everything down and depressed, and what have you, in order to keep the momentum going, and the industry and the investment coming. But that is not democracy and that is not a free market.

But, if there were any doubt, just read this spring's report by Business Week, and I will give one other quote. "In their drive to modernize Mexico, Salinas and his planners command nearly every variable of the economy to smother inflation and preserve Mexico's huge labor cost gap with the United States and other producers. Salinas fixes salaries through a complex business/labor agreement known as El Pacto. He anoints and boots out labor union bosses and State Governors, alike."

Nine Governors that were elected have been booted out. Talk about free elections. Talk about agreements. They will sign anything. They said that the agreements are a farce. If they had given me the power to write these side agreements, it would not have made a bit of difference, because they do not enforce their laws. We had the GAO conduct a study of six of the blue chip American corporations in Mexico and their environmental rewards. And the GAO said that none of the six will be in compliance with Mexican laws, and they had no idea of enforcement down there in Mexico. They had no inspectors to enforce their laws.

Business Week continues, "A few years ago, Salinas quietly banished the American president of Chrysler de Mexico, who was quickly replaced by a Mexican. Salinas and his technocrats juggle import duties and steer investment from one region to another. In short, Salinas and his number crunchers run a near command economy much closer to the Asian model than any country in the West."

Now, you are good to have me this morning. I wanted to bring up witnesses from Mexico 2 weeks ago to the Commerce Committee to testify. There is an opposition to the PRI. They have been trying down there, and they have business leaders—some of them are candidates in the election next year.

However, Mexico has a Constitutional provision providing that if you were a candidate, you could not leave the country for a year precedent to the August election of 1994. The Mexican Congress has changed the Constitution, but when they heard we had invited these witnesses, Salinas slowed down the ratification process. They cannot come.

Talk about free markets. Come on. This crowd has got to sober up and get into the reality and the role of the United States of

America trying to lead the way for the development of freedoms and democracy in the Western Hemisphere.

Under that El Pacto agreement, Salinas jailed the labor leaders that tried to organize in the Maquiladora. There have been violent killings, as well as arrests, and the throwing out of 14,000 Volkswagen workers who went on strike. Salinas was personally involved in it. So, they fired the 14,000, and the 350 that were trying to organize do not get back a job. And the 13,650 come back in with lower wages.

The take home pay, Mr. Chairman, mark it down, has gone down 40 percent in the last 10 years. And Ambassador Kantor will come and say, oh, the pay has gone up since 1986.

But it is still 5 percent, Senator Baucus, 5 percent below the 1980 level. They are trying to work their way back to where they were on that. But all of these big innovations in their economy and everything else—they want this because they need currency. They could not borrow any more.

And Business Week says, Mexican workers cannot afford to buy the products they turn out. Just look at the Harvard Business Review just issued here this week. Nine of the 90 million, only 10 percent of the population, has an income to buy those particular products.

Finally, immigration. I will go right to the one big point. Go down to the Johns Hopkins study. That Maquiladora worker down there, Senator Riegle, I can tell you right now, in 18 months he is gone. He learns that skill and he is going up there to Oregon, and to Montana, and to Los Angeles right now. I mean, he is not staying in that squalor down there and have his children born and live in a cardboard box, and everything else of that kind. Eighteen months.

So, there is no indication that they are going to stay down there under NAFA. The fact of the matter is, when we superimpose the Wal-Marts on the little businesses there is going to be rising unemployment in Mexico. When we superimpose the most progressive agriculture of the world, Senator Conrad, they are going to put over 700,000 little, small Mexican farmers out and they are going to be coming into the United States. This is a problem for Mexico, and what we are going to do is increase the immigration. NAFTA is not going to solve the immigration problem. We have got all the authority to go into that very thoroughly.

The main point is, on jobs, we got GE out of Schenectady and into Greenville, SC; we got Georgia Pacific out of Oregon into South Carolina; we can go right on down the list. We got Parke-Davis out of Detroit, MI.

Look, here. We got Allied Chemical out of Morristown, New Jersey. I have been carpetbagging every chance I have had. Now, Mr. Chairman, they are carpetbagging you and me. Smith-Corona is going to Mexico. And United Technologies, that we have in Bennettsville, is going to Mexico. Pratt and Reed, which makes pianos, came to Liberty, SC, but are losing them to Mexico. Cummins Engine from Stuttgart is also moving to Mexico.

The real story is not in any of this here fanciful talk and these economists writing about so many jobs here, and so many jobs there. Labor costs count, particularly when you do not have the overhead of all these other things, of clean air, clean water, and all the other requirements we have in the United States.

So, the sucking sound is real. But there is a sucking sound that the Senator from Missouri mentioned, and that is, he said that the main competition is Japan and Europe. And the other sucking sound is that of investment going into Mexico from other countries. It is just not us. We have got blinders on. We think this is just Mexico and us.

If you are going to develop a duty-free platform right down underneath the richest market in the world, do you think the Germans are going to produce in downtown Berlin? Volkswagen has already bragged publicly just last week—I will show you the article—that they put on a billion dollar expansion in Mexico to target the U.S. market.

My textiles executives said, in support of NAFTA, "Well, we got yarn forward. You do not understand, Fritz. We got yarn forward." The People's Republic of China, Communist China, is building the biggest yarn plant in Mexico. They do not have to worry about yarn forward. It will be produced in North America. It will be produced in Mexico. And you can find other examples. Korea gives a 25 percent tax write-off for businesses setting up in Mexico.

Everyone is going down there and that sucking sound that you hear is like the article, "Bank of Tokyo—Bullish on NAFTA." They are just salivating and waiting. And they are going down under, and we are going to just wither on the vine. It is not just the jobs leaving. We are just going to stand here with no jobs. It is going to be the jobs coming in from all over this globe down there.

The Department of Commerce study reports that 85 percent of the exports going into Mexico this very minute—automobile parts, industrial supplies, capital goods—are coming right back into the United States. We are trading with ourselves. Do not give me the statement that the average Mexican is buying our exports.

I mean, look at the Department of Commerce figures. Look at the Brookings report that says, in a few years that our exports to Mexico are going to dry up. Look at the Harvard Business Review. It says, by the year 2000 all of that is going to dry up, too.

So, do not give me this stuff about exports. We are losing all the jobs. The common market is a valid approach. The tragedy is, that the crowd that came to town to save the middle class is going to destroy the middle class.

I would be glad to try to answer any questions.

The CHAIRMAN. Thank you, Mr. Chairman. It is a very, very special occasion for this committee to have someone of your experience and your responsibilities in the Senate speaking with such great depth with which, obviously, you have addressed this matter. You have looked at it. I would like to ask if any Senator has a question. If not—Senator Riegle.

Senator RIEGLE. Mr. Chairman, if I may, I want to thank Senator Hollings, not only for coming today and laying that out—and there is much more to say. I mean, this is a big complex subject—but I want to say I appreciate the work of the Commerce Committee in getting down into the heart of the substance of this issue in terms of the way things now work, what the trend lines show us about what will be happening in the future, and how this proposed NAFTA would work.

And, I think what you have given us with the citations, in terms of the Harvard Business School study, from the U.N., from our own Department of State, and other places, about the absence of democratic institutions in Mexico would give the validity to this concept that some of my other colleagues were talking about in such an eloquent way earlier. I mean, that is a wonderful vision if that is the way things actually were. That is not the way things are. That is not the way things are.

And, I must tell you this. I have served on the Commerce Committee with you over a period of years, and, in fact, left that committee to come to this committee. And it has been very interesting to watch how trade legislation is put together. And let me be very blunt about it. Very blunt about it. The press has written about it. Everybody on this committee knows it.

The corridor out here is called Gucci Gulch. It actually has a name because of all of the well-paid lobbyists that cluster around this committee because this committee has the power to make multi-billion dollar decisions on tax law, on trade practices, and that has the effect of bringing in the long line that you had to sort of fight your way through just to get into the room today.

We could probably seat 1,000 people in this room today, many of them representing major economic interests. In fact, the Wall Street Journal has laid all of this out in very good detail in terms of all of the lobbyists in town that have been hired by the Mexican Government, by Mr. Salinas and others, both Republicans and Democrats, former trade ambassadors, everybody that has got a for hire sign out has been hired. And they are either out here today, or they have got their staff people out here. Those are the ones with little telephones here, and so forth, and so on.

And what happens is, is when these trade agreements get put together, if you were listening carefully and you were a good listener here today, you heard some signals go out. You heard some signals go out about wheat. You heard some signals go out about sugar. The way this works is that, when the cutting and fitting is finally done, those problems that relate to individual States and members here of this committee, somehow, get taken care of. I have seen that happen, and it is no secret. I mean, you do not have to be a genius to go down through these things. The signals are often given in public, as they were here today. And, do you know what happens?

An administration, whether it was the Bush administration, or now, apparently, I am sad to say it looks like the Clinton administration, unless we get them turned around and back to their orientation as to who elected them and who brought them here, seems to be following the same practice of figuring out how you add and subtract in these packages to solve problems on the committees of jurisdiction so that you get this wonderful wave of support because the problems in the home States of some of those Senators miraculously just disappear.

You heard, today, a signal given on sugar. You heard a signal given on wheat. Those are important problems. They are not the only ones. The manufacturing base problem, in terms of the national interest of this country, is far and away the overriding problem that is embedded in this agreement and what the consequences will be. We do not have jobs to replace the jobs of people who will lose those manufacturing base jobs.

The CHAIRMAN. Senator, if you do not mind, sir, we have kept Senator Hollings here a very long while.

Senator HOLLINGS. Mr. Chairman, on that point, the security of our country is like a three-legged stool. We have got one leg composed of the values that we have as a Nation. That is very strong, that leg. The military is another leg. That is ultimately strong. That third leg of economic strength is fractured.

At the time this thing is proposed, this NAFTA, we must remember wages are important in the global competition. While I am having businesses leave South Carolina, I am getting in BMW. Do not tell me about wages. Come on. The wage and benefits package in South Carolina is going to be $15 an hour, as compared, in downtown Munich for BMW, of $30 an hour.

I have voted for the free trade. We all believe it in, and I voted for the free trade agreement with Canada because we have got the same standard of living. You are going the wrong way with NAFTA. As old Ronald Reagan would say about this, here we go again. You have got to go the common market approach.

The CHAIRMAN. Thank you very much. And if you would have the goodness, maybe you could send us some of those references you made. We would like to have them in the record.

Senator HOLLINGS. Yes, sir.

The CHAIRMAN. Thank you, Mr. Chairman.

And, now, Senator Levin, if you would come forward, sir. You have been very patient. I see you need the tripod.

Senator BRADLEY. Mr. Chairman.

The CHAIRMAN. Sir.

Senator BRADLEY. If I could, I wanted the record to reflect that Senator Chafee wanted to be here today for this hearing, but he has a Health Subcommittee Special Task Force meeting, and that is why he is not here.

The CHAIRMAN. Oh. Well, I am sure he would have been, obviously, and will be next time.

There is the tripod, and there is the Senator from Michigan. We welcome you, sir.

[The prepared statement of Senator Hollings appears in the appendix.]

STATEMENT OF HON. CARL LEVIN, A U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator LEVIN. Mr. Chairman, thank you and the other members of the committee for the opportunity to testify. I will summarize my statement.

There are two main points that I want to make today. First, there are a number of provisions in the NAFTA text that make it an unfair agreement to the United States. Here are just two of them.

Mexico is allowed to keep in place a number of discriminatory restrictions on American products for 10 years. Mexico discriminates against American assembled autos by requiring auto manufacturers to produce in Mexico in order to sell in Mexico. We have no such restriction in our law. Mexico requires auto manufacturers in Mexico to purchase a fixed percentage of the auto parts from Mexican manufacturers. We have no such provision in our law.

Now, the argument is made that these discriminatory restrictions are reduced somewhat during the 10-year period, and then eliminated after 10 years. But, if they are allowed to remain for 10 years, as they are, we are going to lose thousands of more manufacturing jobs because of barriers that Mexico imposes on our products that we do not impose on products assembled in Mexico.

We lost 2.6 million manufacturing jobs in American between 1979 and 1991. If discriminatory provisions like Mexico's are continued, even on a somewhat reduced basis for another 10 years, many more jobs will be gone.

Why should we incorporate in American law NAFTA provisions that discriminate against our products for 10 months, much less for 10 more years? That is not an acceptable alternative to the status quo.

An alternative to the status quo which is acceptable is to eliminate barriers against American products or to place equivalent barriers on the products of countries that discriminate against our products and to reduce them at the same pace and to the same level. That is point one.

Point two. The underlying premise of NAFTA is that jobs are created by exports, and the figures that are given to us represent a major distortion of the facts. We have heard a lot about exports here today and down in New Orleans today. And, yes, exports can be job creating—can be job creating, but we had better also look at job losses that result from increased imports because imports can be job losing.

The Commerce Department sent out a book, exactly one-half of the picture. It is called "U.S. Exports to Mexico." And they have gone through our States, State by State, and many of us have been quoting these figures like mad, how many exports from our States to Mexico. Then the Commerce Department translates that directly into jobs. For each billion dollars of exports, 20,000 American jobs are supported. It is a significant distortion of the facts. It is only half of the picture.

My other hand should have a book in it which says, these are the imports which will result and these are the jobs which could be lost from imports which are increased. You cannot just look at exports, as the Commerce Department does, multiply each billion in additional exports by 20,000 and come up with the figure, which they do, of 200,000 jobs without giving the other half of the picture, which is the import side of the picture. There is a big, blank page when it comes to imports, and we are entitled to better from the Commerce Department. We are entitled to the whole picture, the net picture.

Mr. Chairman, now, let us just look at export numbers for a moment. If you want to look just at the export calculations, what they do is include in the export calculations the items, the parts, the components which are exported for a few moments, days, or weeks, and then are immediately reimported back to the United States.

The red line is the Maquiladora line, basically. These are the so called exports to the Maquiladora area which are not consumed in Mexico, or anywhere else. Ninety-nine percent of them come back immediately to the United States and are consumed here.

And, yet, the Commerce Department acts as though those are job creating items. They include those in exports, multiply the billions of auto parts, and components, and other things which go there just for assembly and are then brought right back to the United States, multiply each billion by 20,000, and say, look, you have got 20,000 new American jobs for each of the billion dollars of exports.

Let me give you one last example. This is what they include in exports. You have got a plant in the United States. It is a big assembly plant, and we put up five little suppliers. That assembly plant has 1,000 employees. And this has happened over, and over, and over again.

There are 2,000 American-owned plants in the Maquiladora area, many of them transferred from the United States, where a plant in the United States closes and moves to Mexico. And, do you know what? When they move to Mexico, exports go up. Think about it. Think about it.

The plant moves to Mexico. But, now, because some of the components and some of the parts which that plant assembled in the United States are still sent to that same plant in Mexico, those parts and components are now counted as exports and translated by the Commerce Department into jobs in America, although that represents a direct loss of jobs in America.

By the Commerce Department math you could close every American assembly plant, move it to Mexico, but if it still uses some parts and components that are going to Mexico for assembly, even though they are immediately shipped right back to the United States, we would have a massive increase in jobs by the closing of American assembly plants.

Now, this committee should not tolerate that kind of math. You are going to reach your own decision on NAFTA, and it is a complicated issue in many ways. But, for heaven's sake, do not let them give you books of exports which include the shipping to Mexico of parts and components which used to be assembled by American workers in the United States, and treat those as exports and then translate them directly into jobs.

One billion dollars equals 19,600 jobs. Maybe yes; maybe no. They lump them all together and then peddle it—peddle it—to each Governor in the United States in this book. Do not let them get away with that, whatever conclusion you come up with. I thank you very much for your willingness to give us an opportunity to testify. We know the kind of time pressures that you are under, Mr. Chairman.

The CHAIRMAN. Senator, we thank you. Those are directly relevant and they are answerable questions. You have raised issues of data which are aptly central to our decisionmaking. We thank you. We thank you, and we shall have representatives of the Commerce Department here. I propose to ask Ambassador Kantor about this directly this morning.

Senator LEVIN. I thank the Chair.

[The prepared statement of Senator Levin appears in the appendix.]

The CHAIRMAN. Thank you very much. We are going to stand in recess for 2 minutes in order to bring our distinguished witnesses in, or 30 seconds, whatever time it takes.

[Whereupon, at 11:20 the hearing recessed until 11:23.]

The CHAIRMAN. I remarked that we would stand in recess for just a moment for our distinguished guests, who are now seated. We seem to have lost our Senators. No. Here they are. As I remarked earlier, the Washington Post described what is going on as the non-process by which the U.S. Government enters a trade agreement. This is a very special moment. I will ask the room to come to order now.

It is a singular occasion when we have both the Secretary of State and the Secretary of Treasury here together, in the company of our distinguished Ambassador. It was 4 years ago, in 1989, that Secretary Baker came to us to talk about the situation in the then Soviet Union. It does not happen often, and it is a very special, and very welcome, occasion.

I think if we can proceed in the way that I believe is your wish, why, we will hear, first, from you, Secretary Christopher, then from Secretary Bentsen, and then Mr. Kantor.

Senator WALLOP. Mr. Chairman.

The CHAIRMAN. Senator Wallop.

Senator WALLOP. Would it be appropriate at this time just to ask unanimous consent that an opening statement be inserted in the record?

The CHAIRMAN. It certainly would. I know that you were required to be elsewhere this morning. I would be happy to do that. We will have plenty of time. You would like the same thing, Senator Grassley. Of course. And, again, Senator Roth.

[The prepared statements of Senators Roth, Grassley, and Wallop appear in the appendix.]

The CHAIRMAN. Secretary Christopher.

Secretary CHRISTOPHER. Mr. Chairman, I was thinking of asking if I could defer to Secretary Bentsen as the former Chairman of this committee and ask him if he would go first, with your permission.

The CHAIRMAN. We would be very happy, and do. I would remark that while you were listening in the back there he must have felt like he was Chairman once again. Secretary Bentsen, if you would like to proceed.

STATEMENT OF HON. LLOYD BENTSEN, SECRETARY, U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Secretary BENTSEN. Well, thank you very much, Mr. Chairman. I am delighted to be here. I must say that this crowd looks awfully good from this side of the desk, too. I am very pleased to be before the distinguished members of this committee. In addition to my statement today, I obviously have a longer statement I would like to submit for the record.

The CHAIRMAN. Without objection. Sir, would you mind bringing that microphone up?

Secretary BENTSEN. Yes, I would. Thank you. I have told many of them to do that before. I should have.

Mr. Chairman, the big question is as I have heard the other members testifying this morning—jobs, jobs for Americans. And I think NAFTA does just that, the creation of additional jobs for America, and guaranteeing jobs for America.

And this is not a theoretical exercise for me. I was born and reared on that Mexican border and I have seen a lot of Mexican deals. I have seen good ones, and I have seen bad ones. And this is a good one. It is going to generate some 200,000 jobs in the next 2 years. I think it is an integral part of our domestic agenda, and it is a critical part of our international agenda to create jobs through open markets and through trade reciprocity.

Trade is a way of life for us. One in eight U.S. jobs depends directly on trade, and that is why, frankly, I shake my head in wonder when I think about the chance of passing up an opportunity to increase exports and to open up markets. I do not know a time when less trade meant more jobs and more prosperity for Americans.

I listened to some of the statements being made this morning, statements about American business that has gone to Mexico. One of the primary reasons for that has been that Mexico has built—protection for jobs in Mexico, for businesses in Mexico, and ensured that you could not sell your products, in effect, in Mexico unless you put your business down there.

That is one of the things we are talking about getting rid of, changing that, opening up those markets. With NAFTA, what we are talking about is Mexico accepting the idea of open markets.

Look at what has happened since 1986, as Mexico began to liberalize its trade policy. The figures are impressive. We had almost a $6 billion deficit in trade with Mexico; now it has gone to over a $5 billion surplus. We have seen the exports to Mexico go up to $40 billion a year. With that difference that we have seen in opening up Mexico, we have gained 400,000 higher-paying jobs in the United States, and things are going to get better, with NAFTA.

What we are seeing here with the 200,000 additional jobs in the next 2 years, we are talking about jobs that pay about 12 percent more than other export jobs in this country.

We believe that, in addition, our exports should rise another $10 billion over the next 3 years. You see, part of the problem you have got is that Mexico has tariffs—we have a chart on that—approximately 2½ times as high as ours.

That is the kind of advantage they have had over our products and the differential of trade, and that is what we want to rid ourselves of, finally getting ourselves back to a level playing field.

Let me say, too, that these lower tariffs will be for our goods and Canada's, and not Japan and Europe. Let me give you a quick example of that one. From day one, a U.S. automobile will be 8 percent cheaper in Mexico City than it is today.

Over the long run, our cars will cost 17 percent less in Mexico. Now, that is a powerful incentive to buy a U.S.-built car. Do you know how many Ford Tauruses and Saturns were exported to Mexico last year? Exactly none. But the best forecast says that sales of U.S.-made cars to Mexico will leap from 1,000 a year to 60,000 a year in NAFTA's first year alone.

In sector after sector, from consumer goods to telecommunications, NAFTA will be a success story. Mexicans do not just like U.S. goods, they love them. Seventy percent of the imports coming into Mexico are from the United States. They buy more manufactured goods from us than do the Japanese.

Mexico spends more with us on a per capita basis. People say, well, you know, Mexico is so poor. How can that be much of a market? And, yet, they buy more on a per capita basis from us than do the more affluent Europeans, or do the Japanese.

Now, ignoring that kind of a demand makes about as much sense as locking the doors to a store with a crowd of customers standing outside with handfuls of money. I was in business for 16 years, Mr. Chairman, and I do not know any businessman who does well by refusing to do business. I think there are some powerful arguments for NAFTA.

And there is a myth out there I want to knock down. I have a friend of mine from Texas who talks about hearing a great sucking sound. Well, I will tell you the problem my friend from Texas has, he has a hearing problem, you see, because that sucking sound is products going south, not jobs going south.

I am not the only one who believes that NAFTA will mean more jobs for Americans and more exports to Mexico. Private forecasters and 41 out of the Nation's 50 Governors believe that, as well as Nobel Prizewinning economists, the Congressional Budget Office, and the General Accounting Office.

Besides that, there is nothing to stop jobs from moving to Mexico now, or to Malaysia, or to Bangladesh, or to Haiti. And if it were just low wages that made that differential, then those countries would be the industrial empires.

I was looking at the Wall Street Journal this morning. I had heard the Wall Street Journal quoted earlier this morning, looking at the main, right-hand column. "Some U.S. Companies Find Mexican Workers Not So Cheap After All." You have other problems in Mexico, questions like infrastructure, the availability of technological advances, and transportation problems that add to cost.

It is not just wages that we have to look at. I know that my friends in the labor movement and some of my good friends on this committee sincerely believe that NAFTA will be a job loss for America. I do not believe that. I think it is a net job creator.

No one is going to deny that there will be some dislocations; there will. But those dislocations are going to occur whether or not we have NAFTA. That is a structural change that is taking place in our society.

One of the advantages we have in this country, and a tremendous advantage, is that we have the most productive workers in the world, the most competitive workers in the world. Stack us up against any of them, and that is what the economists will tell you.

I think that President Clinton has taken NAFTA and made it better for American workers, for the environment, and the supplemental agreements that were signed yesterday will also do that for workers' rights.

Let me make something clear. We are committed to an innovative and comprehensive program of retraining and other assistance to help any American who is hurt by NAFTA. We want everyone to share in the benefits of more higher paying jobs.

I want to elaborate, briefly, on the border environment issue. I know the importance of safe drinking water, adequate waste treatment and solid waste disposal. This is the greenest trade agreement ever negotiated.

Senator Baucus was making some of the points concerning that one. We are committed to an aggressive border environmental program. Remember, NAFTA did not create the problems on the border, but NAFTA will make a significant contribution to the resolution, to the solution of those particular problems.

The cost will be about $8 billion for taking care of waste water treatment, drinking water, and municipal solid waste. We are in negotiation with Mexico on those problems. We are proposing a new, joint border environment administration that will involve local people in tackling those problems. The cost of environmental clean-up will be shared with Mexico. We want to maximize direct, private funding to meet that need.

We also want to create a border environment financing facility to leverage the Federal funds by borrowing in private capital markets. We expect the facility to lend or to guarantee $2 billion or more. The additional yearly cost to the Federal Government will be very small.

We have a proposal for environmental clean-up that meets key concerns for the environment, and the environmental community recognized that that agreement is good for the environment. We had environmental organizations yesterday with 7.5 million people endorsing NAFTA and its side agreements.

And, finally, let us look at the overall budgetary effect of NAFTA. This agreement will raise as much as $10 billion annually in additional revenues by 1998. We will lose a small amount of revenue from reduced tariffs, an average of $500 million a year over the next 5 years.

Under budget scoring rules, we must find offsets for that, even though we expect much larger revenue developing from NAFTA. The administration is committed to finding these offsets without raising taxes, and we will work with the Congress and with the various committees over the coming weeks to accomplish that.

Now, let me wrap it up by saying that failing to adopt NAFTA will leave Mexico able to jack up these trade tariffs that they have reduced if they decide this does not work. If they go back to the idea of the colossus of the north, and the gringos of the north, and campaigning against them, if they decide, when we do not put in NAFTA, to jack these tariffs back up, they can go up to as high as 50 percent because these are not bound tariffs, and they can be in GATT compliance as they do so. Then you put at risk not just the 200,000 new jobs, but some 700,000 jobs that are already dependent upon exports to Mexico.

So, I think that we will not have the important gains that we expect. That means that we will lose those things we want in environmental control and labor agreements, and the cost of failure would be significant.

But I am convinced that a bipartisan and a forward-looking Congress will see that NAFTA is good for America, and for American workers. I know of no vote, gentlemen, that you will make in the next 6 months that will add 200,000 jobs over the next 2 years, as this one will.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Secretary, for a most emphatic and fact-filled proposal. It is important to us that, to quote you, the administration is committed to finding the offsets for the revenue losses without raising any new taxes, and we will look forward to working with you on that matter.

[The prepared statement of Secretary Bentsen appears in the appendix.]

The CHAIRMAN. Secretary Christopher, are you in the spirit, are you in the mood now?

Secretary CHRISTOPHER. Well, you can see why I wanted Chairman Bentsen to go first.

The CHAIRMAN. We can. But we welcome you, sir, as a very special moment for this committee.

STATEMENT OF HON. WARREN M. CHRISTOPHER, SECRETARY, U.S. DEPARTMENT OF STATE, WASHINGTON, DC

Secretary CHRISTOPHER. Mr. Chairman, members of the committee, I want to say it is an honor to appear before this distinguished committee.

I believe that this agreement between the United States, Canada, and Mexico deserves support, based upon the economic merits alone, especially now that it has been improved by the side agreements on environment and labor that were signed yesterday. Secretary Bentsen has just made a strong case, and Ambassador Kantor will continue on the economic case in greater detail.

Naturally, I would like to focus on what NAFTA means to our relations with Mexico, and with the Western Hemisphere, generally. I firmly believe that the foreign policy implications of NAFTA make an already compelling economic case even stronger.

What I would like to ask, if I can, Mr. Chairman, is that my entire statement be put in the record. I will try to save a little time.

The CHAIRMAN. Without objection.

[The prepared statement of Secretary Christopher appears in the appendix.]

Secretary CHRISTOPHER. Thank you. American foreign policy begins with our neighbors, naturally enough, Canada and Mexico. We have had a successful trade agreement with Canada since 1989. As a result of this agreement, bilateral trade and investment between the United States and Canada have increased.

NAFTA will complement and improve the current agreement between the United States and Canada, just as it will complement and improve our cooperation with Canada on environmental issues.

For Mexico, NAFTA is about far more than just tariffs and trade. It is a symbol of the new relationship and the new structure of cooperation that we have with Mexico. It is really a turning point in the relations between our two countries, and it is this turning point that convinces me that this agreement is in the overriding national interests of the United States.

Today I am glad to say that United States-Mexican relations are characterized not by distrust, but by pragmatic pursuit of cooperation that benefits the people of both nations. In less than a generation, as Secretary Bentsen indicated, Mexican attitudes toward the United States and towards the world, generally, have been transformed. NAFTA will reinforce Mexico's unprecedented efforts to open its economy and to reform its political institutions, including the judiciary and the electoral system.

Under President Salinas' leadership, Mexico has stabilized its economy, climbed out of much of its debt, renewed its growth, privatized its industries, welcomed foreign investments, reduced tariffs unilaterally by 80 percent from their 1986 levels.

Mexico is the United States' fastest-growing export market, and, thus, we have a vital stake in further growth and openness. By stimulating growth, NAFTA will also increase Mexico's capacity to cooperate with us on a wide range of important issues. Let me, briefly, just address three of them, Mr. Chairman: narcotics, illegal immigration, and the environment.

Mexico recognizes that illegal narcotics is a shared problem that can only be solved through close, cross-border cooperation. President Salinas has tripled Mexico's counter-narcotics budget and has shown a resolve to attack the corrupt government officials and drug barons. Some of Mexico's most notorious drug barons and traffickers are now in prison. This is breakthrough progress, and it must be sustained.

We should also consider, Mr. Chairman, the relationship between NAFTA and illegal immigration. Legal immigration from Mexico and other nations will continue to make an important contribution to America's diversity, vitality, and democracy. At the same time, the United States is committed to reducing illegal immigration.

As Mexico's economy prospers, higher wages there and greater opportunity will reduce the pressure for illegal migration into the United States. In the long run, this is the most effective solution to the migration problem.

Like illegal immigration, pollution does not observe political boundaries. Mexico recognizes its problems and is moving to address them, both on its own and in cooperation with us.

We are continuing to work with Mexico to develop a far reaching environmental plan that will help clean up the borders. Unlike any prior trade agreement that I know of, Mr. Chairman, NAFTA explicitly links trade with the environment, and that is an important achievement in itself. The side agreement just negotiated by my friend, Mr. Kantor, will improve the enforcement of environmental laws and increase cross-border cooperation to curb pollution.

Together, we are working with Mexico not only to resolve border issues, but to defuse a number of the hemispheric conflicts and crises. We worked together in Guatemala; we worked together in El Salvador. And NAFTA will solidify the productive relationship we have had with Mexico in dealing with the problems of our hemisphere.

For more than half a century, every American President, Democrat and Republican alike, have stood for closer cooperation with the countries of the Western Hemisphere. NAFTA represents a bipartisan commitment to widening and improving America's ties with all of our Latin neighbors.

As with President Carter, who negotiated the Panama Canal Treaty, but was put through with the help of his two Republican predecessors, Presidents Ford and Nixon, similarly, NAFTA was conceived and negotiated under President Bush, but substantially improved through the side agreements on environment and labor negotiated under President Clinton.

President Clinton is committed to building what he calls a hemispheric community of democracies linked by growing economic ties and common beliefs. NAFTA will encourage democratic governments throughout the hemisphere, from Argentina to Venezuela, that have opened their economies to trade and investment with the United States. The agreement will also provide a bridge to a promising future throughout the hemisphere.

Mr. Chairman, in the job that I have, one of the things that I have to do is to consider the consequences of alternatives. I think one of the most important ways for me to judge the importance of NAFTA is to consider the foreign policy consequences if it is defeated.

Let me be clear about this. In my judgment, rejection of NAFTA will seriously damage our relations with Mexico and erode our credibility with the other nations of the hemisphere, and, indeed, of the world.

For the United States, failure to approve NAFTA would be a self-inflicted wound of historic proportions. First, it would undermine Mexico's capacity to cooperate with us on a number of cross-border issues that effect millions of Americans.

Second, it would send a chilling signal about our willingness to engage in Latin America at a time when so many of our neighbors are generally receptive to renewed, improved cooperation with us.

Third, it would hand a major economic advantage to our competitors in Europe and East Asia. It would give them an opportunity to move into this growing and natural market which should be, Mr. Chairman, our market.

Fourth, it would undermine our position as a reliable negotiating partner on global trade agreements vital to the economic renewal of the United States.

NAFTA is a test of America's confidence. It will measure whether Americans believe in our ability to cooperate in open markets, or whether it will shrink from that challenge and cower in the face of a changing global economy. We must embrace that challenge. We must be willing to accept that change. We really cannot escape from it.

So, in foreign policy terms, NAFTA is a test of our leadership. It will measure our willingness to cooperate across a diverse range of issues with our closest neighbors. Our relations in this hemisphere, indeed, our global leadership, will be substantially boosted if this committee and the Congress makes a decision to approve NAFTA. NAFTA is good economic policy.

But I am here to tell you, Mr. Chairman, it is also good foreign policy. It is a once-in-a-generation opportunity for the sake of all Americans, and especially for future generations. I hope the opportunity will not be lost. Thank you, Mr. Chairman.

The CHAIRMAN. We thank you, Mr. Secretary.

Now, Ambassador Kantor, would you like to offer some thoughts on this? We have been, of course, in regular communication with you. You have met with us on a number of occasions in our back room to keep us abreast of these developments. Now we welcome you to this open hearing.

STATEMENT OF HON. MICHAEL KANTOR, U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Ambassador KANTOR. Thank you, Mr. Chairman. Thank you, Senator Packwood, and members of the committee.

I feel a little like, I think it was, Frankie Corsetti, who used to have to follow Lou Gherig and Babe Ruth in the Yankee line-up.

I welcome the appearance here today of these distinguished Secretaries. Of course, they provide eloquent support for what we are trying to do with NAFTA and these supplemental agreements.

I will ask if the committee will allow my full statement to be put in the record, and I will briefly summarize it.

The CHAIRMAN. Without objection.

[The prepared statement of Ambassador Kantor appears in the appendix.]

Ambassador KANTOR. We have had an extraordinary 24 hours, Mr. Chairman, and members of the committee, as many of you have witnessed. Every living ex-President, three of whom were at the White House with President Clinton yesterday, has come out in favor of the North American Free Trade Agreement and the supplemental agreements.

Forty-one of the 50 Governors of our States have come out in favor of this agreement. Of course, as many of you know—I see Senator Boren, an ex-Governor over there—you wake up every morning, as the President said, as Governor, and the first thing you think about is jobs, and the last thing you think about before you go to bed is jobs. It is an extraordinary show of support for a trade agreement.

Six environmental organizations came out for the NAFTA with the supplemental agreements today. Let me say, they were skeptics when this process began. They represent about 7.5 million Americans, or about 80 percent of those Americans who are members of environmental organizations in this country; 284 economists, and 12 Nobel Laureate economists, ranging everywhere from Milton Friedman on one side, to Jim Tobin on the other—and I think that is a very wide swath in the economic community—have come out in favor of this agreement. But there is more, Mr. Chairman and members of this committee, as all of you know better than I.

The question is, can we make change our friend? Will we grab this opportunity to do the things that are so important, and can we have a reasoned debate about it?

First, can we change the rules and make them fair? They have been stacked against U.S. workers and U.S. businesses for years, and we have got to make them fair. That is what this agreement does.

Second, as a result, can we create jobs? And the answer is a resounding, yes. We will create many, many jobs. And let me say, Mr. Chairman, there has been much too much hyperbole in this debate.

NAFTA will not solve every economic problem the United States has, even when adopted. It will not solve every problem we have with Mexico or Canada, environmentally, with labor, worker rights, or with jobs, but it will make the situation substantially better. It is part of an overall administration approach, working with the Congress, to build jobs for our people, to make us stronger economically, to compete in world markets, to take the winds of change and put them at our back, to really take on the status quo and say, we must change.

As we lower the budget deficit; as we invest in our people again; as we create more private capital as the engine for growth in this country; as we take on health reform and lower costs to make us more competitive; and, of course, cover all those Americans who really need to be covered; as we reinvent government and make ourselves more efficient, therefore, making ourselves more productive and competitive in world markets, we then have to open these markets for our businesses and for our workers.

I would like to summarize, Mr. Chairman, because you have had a lot of rhetoric this morning from everyone, including me. So, I know you want to get to your questions, and to the questions of the members of your committee.

How do the rules change? What is the situation now, and how does it change under NAFTA? One, as Secretary Bentsen pointed out, the tariffs come down. We have had high tariffs in Mexico for hundreds of years. Frankly Mexico has been a closed market, as the Chairman knows.

The tariffs were 100 percent just a few years ago. They came down to a bound rate of 50 percent. They now average about 10 percent. We are going to take them to zero over the course of the next 15 years: half go to zero in the first year, two-thirds in the first 5 years, and the remainder over the course of time. That is a major improvement. Tariffs have been an impediment to exporting U.S. goods into the Mexican market and have been an inducement to move businesses into Mexico in order to avoid those tariffs.

Congressman Houghton, a businessman before he went to the Congress, was eloquent yesterday in talking about a business he had in the Maquiladora region in Mexico, and stated, he did not move because of low wage rates. He moved for two reasons; one, because of the high tariffs, and, two, because of non-tariff barriers which made it impossible to do business—impossible—in Mexico without being there. The North American Free Trade Agreement gets rid of the non-tariff barriers and the unfair rules, unfair to American workers, Mr. Chairman and members of this committee.

Finally, NAFTA phases out the Maquiladora program. That program has been a disaster for American workers. It has drawn over 1,000 substantially owned American companies into that region, employing about 200,000 people because it gave preferences to move to Mexico.

I am not criticizing Mexico. They drew American businesses down there and said, look, you get trade preferences. And then what did we do as a country? We said, we will give you trade preferences coming back. No wonder, if you can avoid high tariffs, and non-tariff barriers, and you get trade preferences, and then, to add injury to insult, not enforce environmental or labor laws, no wonder businesses and jobs moved to Mexico over the last 28 years. We change that with NAFTA in these supplemental agreements.

The Secretary laid out very clearly what has happened, with $40 billion in exports. They are our third-largest exporting market today; our second-largest market for manufactured goods. Mexicans buy, on the average, per capita, $450 a year; more than the average European, or more than the average Japanese citizen, even though people in those two countries make much more money than Mexican citizens. Four hundred million people live south of the Rio Grande—400 million. It is the second-fastest growing economic region in the world.

This gives us the chance to allow them to dock to this agreement to grow the largest single market in the world; to be competitive, Mr. Chairman, with the Europeans and the Japanese. Shame on us—shame on us if we allow those markets to be taken over by others. And, surely, if we pull away from those markets by rejecting this agreement, we know who will be in there in a moment.

Mr. Chairman and members of this committee, with the risk of at least a slight hyperbole, and, with your permission, I believe I could take this document to the European community or to the new Japanese Government and put it on their desk, and it would take not more than 5 minutes to get their signature on this agreement.

We have a very tough job ahead of us, working together on implementation legislation, on the statement of administrative action, working together to try to pass this agreement and the supplemental agreements.

But the biggest job we have is to work on behalf of the American people to grow jobs in our country. There were 425,000 jobs grown in the last 5 years because we have just slightly lowered the tariff and non-tariff barriers, just slightly. Those are export jobs only. Gross jobs, Mr. Chairman, not net. I do not want to be misquoted, gross jobs. But that is in the last 5 years.

We believe, as the Secretary has eloquently put it, there will be 200,000 more export jobs, which pay 12–17 percent higher than other jobs in our economy, in the next 2 years if the NAFTA comes into being.

Let me add one more thought, as we think about changing the rules and being more competitive in world markets. I was thinking this morning about another fight that many of you went through in 1977 and 1978. I was in California at the time. But I know Secretary Christopher, and Secretary Bentsen, and many of you on the committee were here.

I asked someone to look at the Panama Canal treaty, and what were the poll results before the administration began its advocacy for the treaty, and what were the poll results on the day the treaty passed.

It will not shock you to know that two out of every three Americans were against the Panama Canal treaty on the day after the administration announced its support for it and brought it up here; I know Secretary Christopher certainly remembers that.

On the day it passed the U.S. Senate, 68 percent of Americans were for the treaty, and 32 percent were against the treaty. I think that is eloquent testimony to the good sense of the American people, the ability of the administration, working with its friends in the Congress, to take something that is good, common sense. Let us change the situation. We know we are substantially better off with NAFTA than without it.

It is not perfect. I do not claim it is, I will never claim it is, nor do I think my colleagues will claim it is. But it is so much better than what we have today. NAFTA is good for American workers, it is good for American business and it is good for the environment. With the passage of NAFTA we can go forward as a country, go to the Uruguay Round, build new markets, and really grow jobs the way we should.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Ambassador. There can be no question that you have warmed to this subject as you have become more involved with it and it is very evident in your testimony.

Let us make the best use of our time, now. Senator Packwood.

Senator PACKWOOD. Let me ask a question of Secretary Christopher.

The CHAIRMAN. If I may, we will use the lights this time around because we want to make sure everybody is heard.

Senator PACKWOOD. Mr. Secretary, I know that the movement toward democracy is not always necessarily a steady incline, and there are fits and spurts. But it had been my impression that, in Latin America, at least the direction for some period of time, has been toward democracy.

I wanted to just quote a statement of Senator Hollings'. Previous American initiatives to boost democracy in Latin America fell short of their lofty goals. President Roosevelt's Good Neighbor Policy, Operation Panamerican during the Eisenhower administration, President Kennedy's Alliance for Progress, and President Reagan's Caribbean Basin Initiative failed because our commitment to democratic and social reforms never matched our rhetoric.

Just for the record, do you want to give a little recounting of what has been the direction in Latin America and what successes, without attributing it to any particular administrations, we have seen over the last 15–20 years?

Secretary CHRISTOPHER. Well, there is no question that democracy is on the march in Latin America. Country after country is turning to democracy. As you say, Senator Packwood, it is not an absolutely even progression. But, in looking back, I always measure things, naturally enough, against how it was when I was in the State Department 12 or 14 years ago. And things are immeasurably better.

More than two-thirds of the countries in Latin America are now practicing working democracies. So, I think our policy over time—and it has been altogether bipartisan, Senator—has proved to be very constructive in moving toward democracy.

I would also say that, although the progress is, perhaps not as rapid in Mexico, the direction has been correct there. As you know, the opposition parties have begun to play a role in Mexican politics.

Senator PACKWOOD. Or they have even taken a Governorship or two, have they not?

Secretary CHRISTOPHER. They have taken two Governorships by election, that is, the Pan Party, and a third one by appointment. Twelve to 15 million of the Mexicans are now represented by the opposition party. The opposition party also controls 10 percent of Mexico's municipalities, including six State capitals. So, there has been real movement in the direction of opening up the political system in Mexico, with still some distance to go.

Just, if I could add, perhaps, a footnote to that, Senator Packwood. In a situation such as Mexico where conditions are not perfect and there are human rights problems, you always have an issue as to whether you want to disengage and build walls, or you want to, on the other hand, engage and try to tear down the barriers.

And, where there is progress—and we have observed steady progress in Mexico—we think definitely the right thing to do is to engage and to tear down the barriers. We have seen progress toward form and democracy in Mexico, and we ought to encourage it by engaging with them in the way that we would through NAFTA. Thank you, Senator.

Senator PACKWOOD. Thank you. Ambassador Kantor, let me give you another example that you can use. This is from Freightliner Corporation, who makes these gigantic trucks on the road.

Last year, they became the largest manufacturer of these trucks in the United States. They have two big plants, one in one of the Carolinas, I cannot remember which, and the other one in Portland. And this letter is a year old, but I reconfirmed it and am getting a new letter.

It is dated October of 1992. "Dear Senator Packwood: One of the most important political issues of potential impact on Freightliner is the North American Free Trade Agreement that is pending before Congress. As we have indicated to you previously, we request your support and affirmative vote on NAFTA ratification." I want to add here, they are organized by the machinists and is a very high-wage employer.

"Freightliner first began selling to the Mexican market in January 1991. As the Mexican economy expanded during 1991, we were successful in selling 900 trucks in Mexico, representing nearly $50 million in additional business for Freightliner. In 1992, that business has increased dramatically.

"As we approach year-end 1992, we expect to have sold over 2,400 new Freightliner trucks in Mexico, representing over $150 million in sales. Today, we are building 12 units per day in Portland for ultimate delivery to Mexico, and have begun a $10 million expansion to our Portland plant," and what not. I am going to paraphrase a little bit more.

The units they are selling are kit form because they have to send them down to Mexico in kit form and assemble them there. They go on to say in this letter that when this is in effect, they plan to end that.

I will conclude here. "The effect on employment for Freightliner under a NAFTA cannot be predicted precisely, but I can say without hesitation that we will grow our employment in the United States, and, in particular, Oregon. We will not export jobs to Mexico."

So, this is the closest equivalent I have to an auto industry, but it is a major employer with several thousand employees and very high-wage employees. And they have ever intention of closing down their kit operation in Mexico and selling their entire line from the United States. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, sir.

Ambassador KANTOR. Just one comment on that if I might, very briefly, Mr. Chairman.

The CHAIRMAN. Please, Ambassador.

Ambassador KANTOR. Whether it is Quaker Fabric in Fall River, Massachusetts, or Hayworth or Springs Industry in South Carolina, or Atlantic Saw in Atlanta, Georgia, or Keaver Corp. in Phoenix, Arizona, the story is repeated thousands and thousands of times in this country as those tariffs came down.

There is eloquent testimony that, for instance, Atlanta Saw brought people back from Mexico, brought jobs back to the United States because those non-tariff barriers came down. So, that is eloquent testimony to what you are referring to, Senator, and I appreciate that.

Senator PACKWOOD. Could I just ask one short question for Malcolm Wallop?

The CHAIRMAN. Please do. Please do.

Senator PACKWOOD. This is from Senator Wallop for Ambassador Kantor. "I am concerned about right to work States. When the administration was asked whether right to work States would be affected by some of the provisions of the labor side agreement, the administration replied that this agreement does not affect any sub-Federal statutes. However, State right to work laws are authorized by Federal statute, Section 14B of the Taft-Hartley Act. Could this Federal authority be eroded by any of the labor side agreement provisions?"

Ambassador KANTOR. No, sir. Not at all. The only thing these side agreements do is provide dispute settlement when a unit of government fails to enforce its existing laws. So, therefore, it does not change the law, nor does it alter it in any way whatsoever.

Senator PACKWOOD. Thank you.

Secretary BENTSEN. Let me say, too, Senator Packwood, again, on this question of trade, what you had was a situation where, if we wanted to sell a car to Mexico, we had to buy 2½ cars from them. They have now brought that down to two to one, but still quite discriminatory. If we wanted to do it on automobile parts now, we have to buy from them $20,000 worth of automobile parts before they buy $10,000 from us. That is the type of thing we are trying to do away with.

The CHAIRMAN. Thank you, sir. For the record, I do want to note that we have read into our journal the judgment of Americas Watch, which is a respected human rights organization. It is the 1993 edition. "Apart only from Cuba, the most authoritarian State in the Western Hemisphere is Mexico." It may be less than it was, but it is more than any other is.

Now, Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. I will be very mindful of the time pressure here. I would like tight answers, if I may, because there are subjects that I want to cover. But, Mr. Kantor, do you have the figure of the disposable income of the average Mexican worker?

Ambassador KANTOR. I think the average Mexican disposal income is around $3,300 a year in U.S. dollars, or something like that. It could be $3,323, but I think I am close enough.

Senator RIEGLE. Well, a number like that is used as sort of the average income. Obviously, certain things—they have to pay taxes, they have to do certain over things.

What I am trying to get at—and you may not have this, but I would like you to get it for me, if you would—the issue of how much money is left at the end of a pay period by a Mexican worker, on average, to even think about buying a $10 wall clock, or a $90 black and white or color TV set, let alone an automobile, like Secretary Bentsen speaks about.

Everything I have been able to see tells me that, for the great mass of Mexican workers and people, that their disposable incomes are so small that the notion that, somehow or another, there is going to be all this buying power unleashed by goods made by Americans, really, is just implausible and fanciful. They do not have the money, frankly, to do that.

And, of course, there is no guarantee that if they did, with what small amount of disposal income they have, that they would spend it on something that we would make versus something that might be coming in from Japan, or somewhere else in the hemisphere, or even made in their own country. But, if you could get that figure for me, I would like to have that.

Ambassador KANTOR. If I might, I can give you a very tight answer. Number one, the fastest growing item of exports to Mexico today are consumer goods. Number two, the Mexican average wages per employee have risen each time in the last 5 years, and 21 percent last year.

And, number three, President Salinas has now placed himself—which is not part of even our law—to pass a law in Mexico with a national wage board which would tie real minimum wage increase to productivity. And, of course, as we know, all other Mexican wages are tied to the minimum wage. And, of course, that will raise these wages even further.

Senator RIEGLE. Well, let me just say—and we do not have the time here, because I, frankly, think the portrayal of the statistics by the administration is not accurate. I think it is distorted in terms of its basic presentation. The fact is, the minimum wage is about 60 cents in Mexico.

So, when you talk about increasing it over a period of time, it would take decades before it would get to a point where it would even come close to approaching ours. But, leaving that aside and leaving aside an accounting of the way the exports and imports are done, we will do that when more time permits.

I made a reference earlier to the Nation Magazine, Secretary Christopher. I do not know if you have had a chance to see this. This is a journal that I think enjoys some respect. It has been around since 1865, and they have just devoted an issue in opposition to NAFTA.

I want to read you one paragraph from it. And I do not know whether it is accurate or not, but I want to know—and you may be able to tell me now, and, if not, I really do want a detailed response for the record. And, in this issue on page 834, published on June 14th of this year, they say this.

They say in September—now, they are reaching back into September of last year, 1992. National Journal, which you are familiar with, which is a weekly journal that is put out here in Washington on issues, it says, "National Journal reported that the Mexican Government had retained O'Melveny & Myers, the law firm of future Secretary of State Warren Christopher, who advised Mexico on technical issues in the NAFTA negotiations, such as antidumping laws and countervailing duties." It then goes on to say, which I think is more important, if accurate, is, "O'Melveny & Myers did not disclose these activities to the Justice Department."

Now, just reading it, my presumption would be that this may well be inaccurate, although the fact that it is in print in a legitimate journal that has a long history, to me, is just troubling on its face.

I would like to know what the facts are, insofar as you know. And, if you do not know what the facts are, I would request that we get full response to this. And, if this is not accurate, then I want to be able to make it clear that it is not accurate and it can be taken off the record.

Secretary CHRISTOPHER. Senator, I did not see the article in Nation Magazine and would like to have an opportunity to reply more fully. But I can say two things now. I personally had——

The CHAIRMAN. Mr. Secretary, may I say that you can ignore this light for purposes of a response. Take all the time you want.

Secretary CHRISTOPHER. Thank you. I had nothing personally to do with the representation of Mexico. I have a vague recollection that there was work done for Mexico by the Washington office of O'Melveny & Myers. But you can be sure that whatever there was was disclosed in the course of the conflict of interest, and so forth, procedures that I went through before coming into office. But I will reply more fully, now that I know the nature of your question, Senator.

Senator RIEGLE. Thank you.

The CHAIRMAN. Thank you, sir. Thank you. Senator Danforth.

Senator DANFORTH. Secretary Bentsen, remembering when my party was in the White House, oftentimes we, as Republican Senators, were called on to vote on matters that were supportive of the administration's position. And sometimes we really had to choke over them, but we tried to be supportive of the administration.

We were not always supportive of the administration; each one of us deviated from time to time. But, on a matter that was viewed as really essential to the administration's policy, there was a tremendous presumption by Republican members of the Senate to try to be supportive of our President.

The question I would like to ask you is, how important is NAFTA to the President of the United States? My impression yesterday, from being at the White House, was that he could not have been stronger in his support of NAFTA.

My impression, from seeing three members of his Cabinet appearing today before us, is that the administration is solidly behind NAFTA. Then, when I read in Ambassador Kantor's statement our economic strategy, and then he talks about our trade policy, including NAFTA as an essential part of that strategy, I read that to say that NAFTA and the approval of NAFTA by the Congress is essential to the economic program of the Clinton administration.

Am I correct in my interpretation that this is a very, very important matter from the standpoint of President Clinton?

Secretary BENTSEN. Without question. I thought that the comments of the President yesterday left not the slightest doubt of his total commitment and the support of the NAFTA policy and the agreement, and getting it into force. We would put ourselves in a very difficult position if we were not trying to put this one through at the same time we are trying to support reforms in GATT to open up markets in foreign countries.

So, the commitment is without equivocation of any kind. I must say, in addition to that, as I look at the polls, there is a division in the public's opinion as to NAFTA, as to what it will do.

I think that is because, in effect, we have seen a lack of the facts and information apprising the American people what this will do. And we are totally committed to accomplishing that. We cannot win this fight in the U.S. Congress without winning the support of the American people, and we fully understand that. We are dedicated to doing that.

Senator DANFORTH. All right. I would like to ask Mr. Kantor a question. You would think, from hearing the opposition to NAFTA, that we are really giving up a lot. I mean, we are giving up something in NAFTA that is essential to the economic well-being of the United States.

Now, my question to you is, what are we giving up in this deal? Now, my understanding is that what we are giving up is average tariffs of 4 percent, compared to Mexico which has average tariffs of 10 percent, and that half of the goods that are now imported from Mexico into the United States enter duty-free as it is.

And my question is, what is it that we are giving up in NAFTA, and if what we are giving up is 4 percent average tariffs and if 50 percent of Mexican goods now are coming in duty-free, that would seem to me to be a very small thing and a very shaky foundation for an economic policy for the United States.

Ambassador KANTOR. Number one, you are right. We agreed to reduce our tariffs over the course of the agreement to zero. Theirs, of course, are 2½ times higher, so we gain, not give up.

Number two, non-tariff barriers come down. We have, of course, very few, if any, in this country, the largest open market in the world; they have had many. That will spur goods going south, as Secretary Bentsen said, not jobs.

Number three. We open up trade and services for the first time, which will be good for U.S. service industry, and we will do very well in that sector. It will protect intellectual property rights for the first time, which will be enormously important.

Senator DANFORTH. But my question to you is, what are we giving up? I mean, if we say, oh, my gosh, we are going to just fall into a hole by giving up our 4 percent tariffs, what are we giving up for whatever we are getting?

Ambassador KANTOR. We are giving up very, very little, if anything, and we are gaining a huge amount. Let me say, either we join together now or we are going to pay the price later. This agreement is really stacked in our favor, not against us.

The CHAIRMAN. Thank you, Mr. Kantor. Senator Danforth, how can I say that we will not get any progress whatever if there is an attempt on your side of the aisle to impose the conformist, uniform, structure of stratified obedience of the Republican Party on the Democrats. [Laughter.]

We are not that sort of person. As an example, I offer the floor to Senator Daschle. I wonder how difficult he will now be. Senator Daschle.

Senator DASCHLE. Thank you, Mr. Chairman, for that introduction. Senator Danforth asked what we give up. Obviously, there is a lot that we gain, and some questions about what, if anything, we give up. Of course, one of the concerns that some of us have articulated now for some time, and that I view as the anomaly in the whole agreement, is the fact that we could not come to an agreement with Canada on agriculture. We have an agreement with Mexico, they have an agreement with Mexico, we do not have an agreement with Canada. Why did that happen?

Ambassador KANTOR. First of all, I think others could be more eloquent and probably more factual than I, because I was practicing law in Los Angeles as a colleague of, or at least a colleague in the Bar, of Secretary Christopher and not here. Let me just say, it is a weakness in the agreement, but it is not a flaw, or even a fatal flaw.

It is interesting, Senator Daschle, as you look at what has happened in the last 5 years. We barely begin to reduce tariff and nontariff barriers in agriculture. I will give you a couple of examples. Cereals went up 297 percent in exports; meat went up 66 percent; nuts went up 250 percent. We have done very well. It is estimated, as you know—and I think these figures cannot be challenged—we will increase agricultural exports every year to Mexico by $2–$2.5 billion dollars.

Even Senator Hollings, who was here earlier, an opponent of NAFTA, a person that I respect greatly, said that that is one of the problems he sees because so many Mexican farmers might leave the farm, and, in fact, migrate north rather than going to the cities or into other jobs, and that is something we can discuss. But there is no doubt agriculture is a huge winner in this agreement.

Senator DASCHLE. Mr. Ambassador, you use some interesting adjectives here. You say it is a weakness, but not a flaw. Then, without answering my question, you go on to say what kind of growth we might anticipate in the market.

The question is, why did it happen? Why is it that Canada refuses to come to negotiate with the United States in a free trade agreement that is truly free for everybody? That is the question.

And, I must say, I think the answer is pretty obvious: they think they got a better deal than we did. That is the answer. They look at what we did with Canada in grain, especially in wheat, and they see a $600 million advantage. They see what they have done in Mexico over the last 5 years. They now have 75 percent of the wheat market in Mexico, and they do not want to change that.

So, while I think there is every reason to believe there is some potential for growth and gain in the market, I think that the lack of a trilateral agriculture agreement is a weakness that may be a flaw. The bottomline is, how do we deal with it? I do not think it is appropriate that we ignore it.

I do not think that it is appropriate that we write it off, that we rationalize it, that we do things to negate the impact because, I must say, it is a problem that will be there for a long period of time, and one that I think we will all regret if we do not deal with it effectively.

So, what I would like to ask, if you can tell me, is, first of all, with whatever specificity you can, maybe for the record, why is it that Canada refuses to negotiate a true free trade agreement with Mexico and the United States on agriculture, and what are we prepared to do today in light of their reluctance.

Ambassador KANTOR. Mexico and Canada do have their own separate agreement. We have an agreement with Canada, and we have an agreement with Mexico. It is triangular. It is not like the other areas of the NAFTA, you are absolutely correct, where we all three agree on all other aspects. But we are prepared, and we have already taken action, as you know.

We have increased our export enhancement program on wheat into Mexico and China as a result of the Canadians, I think, unfair and subsidized practices of wheat coming in, durum wheat, especially, into this country. We are looking at other actions, of which you are well aware. We ought to have legislation which, unfortunately, did not come through with the Reconciliation Bill which we supported in this administration for end-use certificates.

We are prepared to work with you, as we have been and as we have, to make sure American wheat farmers are treated fairly, the Canadians do not take unfair advantage of a Canadian free trade agreement which allowed them, in fact, to subsidize and to hide the real cost of their wheat, which we have talked about. And we are prepared to take vigorous action, as we already have.

Secretary BENTSEN. Mr. Chairman, if I might say to Senator Daschle, that I endorse what the Trade Ambassador said, and I also acknowledge to you that we have a serious problem with Canada. But we should not lose sight of the fact that Mexico is our third-largest agricultural customer. We should not lose sight of the fact that in the mid-1980's, our exports on agriculture to Mexico were approximately $1 billion. Last year, 1992, they were $4 billion; an incredible increase. We should not lose sight of the fact that we anticipate another $2–$2.5 billion increase in those exports, while acknowledging exactly what you have said on the Canadian agreement.

Senator DASCHLE. I am out of time. Thank you.

The CHAIRMAN. Thank you, Senator Daschle. Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman. I want to thank my colleague, Senator Daschle, for providing a perfect lead in to the questions that I have, because we have been on the front lines of the so called Canadian Free Trade Agreement, and I say it is so called because, with respect to grains, we do not see it as free trade at all.

We see an absolute flood tide of Canadian grain coming across that border, truckload after truckload, hour after hour because of an unfair agreement that had nothing to do with free trade with respect to wheat and grains, and had everything to do with negotiated trade. And our previous negotiators—I want to make that clear—blew that negotiation with respect to agriculture.

Let me just say that perhaps the reason we do not have an agreement with Canada is because they have looked to their self interest, as I hope we would look to ours. In 1989–1990, the United States sold 219,000 tons of wheat to Mexico; Canada sold zero, none, nada, nothing. By 1991–1992, we were down to 185,000 tons, Canada was up to 431,000 tons.

Is there any question why Canada has not entered into an agreement with us? They are taking us to the cleaners day, after day, after day, and there has been no response. They see us as falling over, of allowing the northern border just to be a sinkhole for their grain, and it is getting worse.

The question is, are we going to respond, are we going to stick up for our people? I was sent here by the people of North Dakota to fight for them. The Senator from South Dakota was sent here to fight for his people.

And, when we sit on the front lines and see what is happening to us, our people are angry. They look at this agreement and they say, there is nothing here. There is no fix here. We are just going to continue to be taking it on the chin. What is the answer?

The CHAIRMAN. Briefly.

Ambassador KANTOR. Briefly, the answer is, not only do we agree with you, we follow the policy that I think you support on the export enhancement program into Mexico and China. I talked to Secretary Espy this morning. We are looking at moving very quickly on the petition regarding the Section 22 action with regard to wheat. We have moved very quickly.

We would love to have legislation. We supported it on end-use certificates. Unfortunately, it did not pass the Congress in the Reconciliation Bill. We will try again in some other way. We will work with you on it in every way possible. We agree with you. We are working on trying to get an accounting out of the Canadian Wheat Board, as you know. We are doing everything possible that has been suggested to us by both Senator Daschle and yourself, Senator Conrad, and by Senator Dorgon, and others, because you are correct. You are not incorrect.

But, let me point out for the record, Mr. Chairman, from 1987 on we have had a huge surplus in agricultural products going into Mexico, and we had a deficit before that as these barriers began to come down. I know that is not a direct answer. I have tried to give you a direct answer. This agreement is good for U.S. agriculture. We have to do more with regard to wheat.

Senator CONRAD. Mr. Chairman, if I might, I really urge the administration to go forward with a Section 22 action because, unless our neighbors to the north understand that we are very serious on this matter, nothing is going to happen. I understand the sensitivity with the Canadian election on the horizon. I understand that.

But, at the earliest opportunity, I urge the administration to go forward with a Section 22 action because it is going to take that kind of action to convince the people of my State that we are serious about protecting American producers, though not in an unfair way.

I mean, I hear a lot of talk about protectionism. We don't want protection in an unfair way. We want to be treated in a fair way so that Canadian producers are not given an unfair advantage in our markets. I very much appreciate the attitude Ambassador Kantor has brought to this problem. There is no question there has been a dramatic change from what we have faced in the past.

The CHAIRMAN. Thank you, Senator Conrad. I wonder if I might not suggest, so that it is clear to you, that three members of this committee are very concerned about this matter. I wonder if we could not have one of our informal meetings just to go over measures that are available to us. You obviously have specifics; Senator Baucus does, Senator Daschle and Senator Boren.

Senator BAUCUS. Senator Dole, too.

The CHAIRMAN. And Senator Dole. We can do that, and I am sure you would be willing to.

Ambassador KANTOR. At your convenience, Mr. Chairman.

The CHAIRMAN. Fine. I think that needs to be addressed, and we will. Senator Bradley.

Senator BRADLEY. Thank you very much, Mr. Chairman. I would like to try to get a little focus on not only what NAFTA does, but what it does not do, and I would like to pose a series of questions to Ambassador Kantor.

Does NAFTA limit our ability to prevent the import of goods with harmful pesticide residues? Does it limit our ability to prohibit that?

Ambassador KANTOR. No, sir. It does not.

Senator BRADLEY. Does it allow trucks that do not meet U.S. standards to enter the United States?

Ambassador KANTOR. No, sir.

Senator BRADLEY. Does it limit our ability to stop drug smugglers?

Ambassador KANTOR. No, sir, not at all. In fact, it enhances, to some degree, our ability, but it does not affect it in a direct way.

Senator BRADLEY. Does it allow Canada or Mexico to evade our National laws against dumping products in our market?

Ambassador KANTOR. No, it does not.

Senator BRADLEY. Does it make it easier for illegal immigrants to enter the country?

Ambassador KANTOR. No. In fact, even opponents of NAFTA agree that we will stem the flow of immigration by 1.6 to 1.8 million people. Those are their numbers, not mine.

Senator BRADLEY. Does it, as a Senator maintained earlier today, prohibit us from producing automobiles in the United States and selling them to Mexico, or does it, as the President said yesterday and the Secretary reiterated today, allow for the export of U.S.-made automobiles to Mexico?

Ambassador KANTOR. Yes, it does, for the first time. And we are going to go to the first year estimate of 60,000 cars exported. Right now it is about 1,000, I think, is it not, Mr. Secretary?

Secretary BENTSEN. Yes.

Ambassador KANTOR. It will have a major growth in the export of light trucks and automobiles into Mexico.

Senator BRADLEY. So, the statement made earlier that there are severe restrictions on American assembled autos export to Mexico, and you have to produce in Mexico to sell in Mexico is not true?

Ambassador KANTOR. That is the situation now. That is looking at the future through a rear-view mirror, if I might say that. That is the past, not the future.

Senator BRADLEY. Let me ask Secretary Christopher, could you elaborate a little bit as to, if this was not passed, how much more difficult it would be for you in trying to achieve some of our other objectives?

Secretary CHRISTOPHER. Senator Bradley, I have laid out a number of things in my statement. But let me emphasize some of those that seem to me to be the most trenchant. First, it would be a tremendous setback in our relations with Mexico. They have negotiated this agreement in good faith, and then they negotiated the side agreements.

I think it would color our relationships for years ahead if we cannot follow through if this agreement is cast aside. The atmosphere that has been created by President Salinas in what I say is a new day between the United States and Mexico, I think, would evaporate very quickly.

Second, it would have much broader consequences throughout the hemisphere and throughout the world. Frankly, the hemisphere is looking forward to this free trade agreement as a prototype for comparable agreements, not identical agreements, that might be negotiated for our benefit with other countries. I think there would be a great dashing of those hopes if that happens.

It also, I think, calls into question our credibility in negotiating international agreements if they are not passed, especially where the country has gone as far as Mexico has to accommodate our needs in negotiating these side agreements.

And, finally, I think it would, from an international standpoint, open the door for opportunities for our principal competitors around the world, rather than preserving them for the United States. So, it would be a big blow from the standpoint of foreign policy. As I said, Senator, I have to try to deal in the alternatives, and this is an alternative that would be a most unattractive one for the United States.

Senator BRADLEY. On your last point, that it would open up the Mexican market to our competitors, that, under NAFTA, the Mexican market would be ours. That is how I took your statement.

Secretary CHRISTOPHER. That is correct. We have a tremendous advantage in that market because of the reputation that our products have there. But, if this agreement goes down, others are going to move in and take that advantage.

Senator BRADLEY. Secretary Bentsen, I know of no member of Congress, nor any member of the administration who has a deeper feeling and a deeper understanding of the dynamic between Mexico and the United States than you do.

Could you share with us a little bit your thoughts about what this means for the United States-Mexican relationship and what opportunity you see this to turn a page?

The CHAIRMAN. Do not let that bother you. I interrupted, so please take your time.

Secretary BENTSEN. Mr. Chairman, Senator Bradley, I have spent a great deal of my life on that border. Always Mexican politicians ran against the colossus of the north, against los gringos. They did not look on us as a trading partner, but someone trying to impose our will on them. And that was a successful political position for Mexican politicians to take. There has been an incredible reverse on policy and attitude toward the United States, first, by De la Madrid, and now by Salinas. Also, it is not just in Mexico that we are seeing this revolution taking place.

When they are talking about democratization, go down and look at Chile after Pinochet and see what Alwin has done, what Alejandro Foxley has done. Go to Argentina. Look at Menim. A Peronista comes in, privatizes, lowers tariffs, cuts back on inflation. Govalo, his economist there, is doing a superb job. That is happening in a great part of Latin America.

Look at Asia, exploding, from an economic standpoint, in growth. No question but the Japanese and the Chinese have an advantage over us there. That does not mean we back away from that, we have to pay attention to that, we have to emphasize that. But Latin America is number two in growth of all of these areas, and we have an enormous advantage there. We must not give it up, we must not lose having them buying considerable amounts of our products. Currently, of the products imported into Mexico, 70 percent come from the United States.

The CHAIRMAN. Thank you, sir. Thank you, Senator Bradley.

Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. I would like to follow up a bit on two points, really. The first, is following on questions of Senator Daschle and Senator Conrad. I would just like to reemphasize for the three of you the degree of depth of frustration and anger in northern tier States against NAFTA.

These are farmers, primarily. Agriculture is extremely important. It is the major industry in several of our States. The agricultural segment believes that the problems that they have with the flood of Canadian subsidized imports into the United States, particularly northern tier States, was caused by the Canadian Free Trade Agreement, and it is going to be further exacerbated by NAFTA. That is what they believe, and they believe it fervently. I hear it all the time.

Now, the fact is, that the Canadian Free Trade Agreement did not cause this flood of Canadian grain into the United States. In fact, I remember when Secretary Baker, who was then Treasury Secretary in charge of Reagan administration negotiations on the CFT, called me up to get my support. I said to him, keep Section 22.

The Canadians wanted it out. They do not like American Section 22. But I said to the Secretary, if you keep Section 22 in, it will go a long way toward getting my support for the Canadian Free Trade Agreement.

Fortunately, we still do have Section 22. I firmly believe that there are about six or seven Senators who will change from opposition to NAFTA to support for NAFTA if we solve this problem with Canada in the context of NAFTA.

We certainly cannot reopen the agreement, but we certainly could solve the problem in the context of NAFTA by taking certain unilateral U.S. action. We have sent Export Enhancement Program wheat to Mexico. That has helped to counter the subsidies the Canadians have. We also need to get end-use certificates. That helps. Canadians' end-use certificate our wheat; there's no reason in the world why we cannot end-use certificate theirs.

And, as before, it is critical to keep Section 22. And I know, Secretary Christopher, that the State Department may have a little bit of problems with Section 22 in hearing objections from Canada. But, I must say to you, what we would do with Section 22 is essentially just protect our rights so that Canada does not continue to take advantage of the United States. That is what they are doing. They are taking advantage of us. They are getting away with it thus far. That just cannot continue.

And I say to you that the millers in the United States are split. Some millers are opposed to Section 22, but some are in favor of Section 22. But, politically, in terms of getting six or seven Senators turned around on this, I strongly urge you to enact it on track of Section 22 so we can solve this problem. It is critical.

The second major point here. You know, I referred to your friend from Texas, Secretary Bentsen, when you said that he is deaf and the giant sucking sound is actually products going to Mexico, not jobs to Mexico.

I wonder if you could just expand that a bit further, particularly if you know about an OTA study which reveals that the cost of production of an average car in Mexico is actually higher than the cost of production of the same car in the United States, and also that wages are only 2 percent of the production of that car in Mexico, and only 8 percent of the total production cost to the United States. Could you just elaborate a little bit?

And, also, your friend says—I know he is not figuratively your friend—that he believes that there is going to be 5.9 million jobs at risk as a consequence of this, and he had all his figures. Could you just elaborate a little bit on what you think the facts are, and what's actually going to happen with respect to wages and jobs a little bit more?

Secretary BENTSEN. Well, you have referred to the Office of Technological Assessment study comparing the cost of building a car in the United States to building one in Mexico. The cost of building a car in Mexico is $410 more than it is in the United States.

And the reason is that in spite of the differential in wages, it is far more than made up for by infrastructure problems, transportation being a very material one that adds to the cost of the Mexican car. That is why you see situations like some of these companies that went down there coming back. You will see a lot more of that happening once we see these restrictions taken care of. So, I would say that my friend from Texas does not have the facts and has not given us the correct interpretation as to what the results will be. So, we find ourselves in strong difference.

Senator BAUCUS. Thank you.

The CHAIRMAN. Thank you, Senator Baucus.

May I report what our distinguished witnesses will not know? We have a vote on, so we are going to have to bring our morning to a close very shortly now. Senator Grassley.

Senator GRASSLEY. Thank you. My question is about small business. But, before I ask the question, I know you believe and I believe that, just generally speaking, freeing up trade is better for everybody. You know, the tide lifting boats helps everybody sort of philosophy.

I would like to have you forget that, though, just for a minute because we are talking about the real life of people in small business, and people that are big corporations, big business generally know how to do it.

What is your judgment of the impact on small business of the North American Free Trade Agreement, minimal, or is it going to help, particularly, in easing red tape and restrictions? That is my question.

Ambassador KANTOR. Yes, sir, Senator. I assume that is directed to me. This is a major winner for small business. One, because small business, as a necessity, operates on a smaller margin than large business: a “mom and pop store” cannot compete with large business. And, second, small business cannot move to Mexico and reestablish themselves.

So, for both reasons, the situation before of high tariffs and those unfair rules, non-tariff barriers, the Maquiladora program, gave large business a great advantage over small business because small business literally was locked out of the export market into Mexico.

Today, if you look at Quaker Fabric, or you look at Atlanta Saw, a very small business in Atlanta, or Kiva Plastics, they are already expanding into Mexico their exports, not jobs, because the tariffs and non-tariff barriers are coming down. Now, when we get rid of them, you can imagine the help it will be to small business in this country.

Senator GRASSLEY. Are you satisfied with the general support from small business trade organizations in support of NAFTA that you get, or are you disappointed?

Ambassador KANTOR. We are having a tremendous amount of support out of small business, in fact, not only the organizations, but individual businesses around the country. We would always like more. I am never completely satisfied because I think it is so important to win this. But they have been very adamant, vocal, and eloquent in their support of this agreement and these supplemental agreements.

Senator GRASSLEY. Then my last question would be for Mr. Christopher, but it would follow on a question that I believe Mr. Bradley—I was out—asked Mr. Kantor about the impact upon illegal immigration. And I think you estimated it would help us with 2.5 million less.

Ambassador KANTOR. The actual numbers—these are of those who oppose NAFTA—said it would slow immigration by 1.4 to 1.6 million people. That is——

Senator GRASSLEY. That is illegal immigration.

Ambassador KANTOR. Illegal immigration. Yes, sir.

Senator GRASSLEY. All right. Now, my point to Mr. Christopher is, maybe from the standpoint of your being our chief diplomat, and this is kind of a sensitive issue, but it is also becoming a very sensitive political issue in America as it was 10 years ago. Do you see this as a selling point for NAFTA, or do you kind of shy away from that sort of rationale behind another reason for being for NAFTA?

Secretary CHRISTOPHER. Not for a minute, Senator. I think that the United States has benefitted greatly from legal immigration, but illegal immigration is in a different category. I think that it is common ground between us and the government of Mexico that we should try to stem the flow of illegal immigrants to the United States.

And, this agreement, by providing for more jobs and more prosperity in Mexico, is likely to have a profound effect toward stemming the flow of illegal immigration to the United States. I do not have any hesitancy in making that argument, or endorsing it.

Senator GRASSLEY. And, do you feel that the Mexican Government feels that it will stem the flow of illegal immigration, and, beyond that, outside of the agreement, that it would be a conduit for greater Mexican-American cooperation in regard to illegal immigration?

Secretary CHRISTOPHER. Yes, on both points. Your second point is particularly important, Senator. I think that if an agreement were to be turned down, the era of cooperation that we have at the present time would come to a screeching halt, and I think we could expect more difficulty on the immigration front. As things stand now, we can expect good cooperation and enhanced cooperation if the agreement is improved.

So, it is not a cure-all on that issue. The issue will continue to be one that the United States will have to deal with, especially in such border States as California. But, nevertheless, this agreement will have a positive effect on dealing with that problem, which, as you say, is very much in the news.

The CHAIRMAN. Thank you, Mr. Secretary. Thank you, Senator Grassley.

I'm afraid, Senator Roth, you have to have a somewhat attenuated period, but the finale is yours, sir.

Senator ROTH. Time is running out. But I would like to raise a question in respect to the auto industry. If my going around my little State of Delaware is any example, it does seem that the administration is losing the battle of minds on NAFTA.

Now, that may be changing as a result of yesterday, although there is so much on the platter I think it is going to be very difficult. But I have two huge auto assembly plants at home, and they are very concerned. These are good, hard-working people. They are very concerned about what is happening. They see themselves losing their jobs to Mexico.

Now, it is true that the obstacles are being phased out, but that takes 10 years. And that is a matter of concern to my workers. The auto industry's management, of course, are very enthusiastic about the agreement. Have they given you any kind of assurance that, or have you met with them on whether they will not begin moving facilities down to Mexico? Because it seems to me a lot of your opposition stems from these very people.

Ambassador KANTOR. As you know, Senator, General Motors just moved 1,000 jobs from Mexico back to the United States. The three automakers have assured the administration that NAFTA is an agreement that not only they support, but will allow for the exporting of cars to Mexico, not jobs. As you know, 25 years ago and up to this date, the reason they moved to Mexico in the main were these unfair rules and the high tariffs, which were 100 percent at some point.

Let me talk about the phaseout. If I am not mistaken, the tariff on light trucks is phased out immediately. The other tariffs are cut in half on cars and then, of course, are phased out over 10 years. They estimate, as we have heard today, 60,000 cars will go into Mexico as a result. And I am sorry for——

Senator ROTH. We have to go and I am sorry to be rude and cut you off, but my question is, has any effort been made to see whether the Big Three are willing to agree that they are not going to be moving to Mexico?

Ambassador KANTOR. The answer is yes, Senator. This is a delicate time in union and management relations in that industry, and I think you can expect that, later this fall, you will hear some statements out of the auto companies.

The CHAIRMAN. I think it is a good question, Senator Roth. I am glad you asked it.

Senator ROTH. I am sorry time ran out.

The CHAIRMAN. Time ran out. We cannot thank you enough for being patient with us. We took a long time this morning with wonderful briefs which we will be absorbing for a long time. We just want to say thank you all. You have had a lot to do this week. Mr. Secretary, in particular, you have had a big week. I wish a happy new year to Mr. Kantor, and take the afternoon off.

Ambassador KANTOR. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

[Whereupon, at 1:18 p.m., the hearing was concluded.]

NAFTA AND RELATED SIDE AGREEMENTS (LABOR ISSUES)

TUESDAY, SEPTEMBER 21, 1993

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:10 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Daniel Patrick Moynihan (chairman of the committee) presiding.

Also present: Senators Baucus, Bradley, Riegle, Rockefeller, Conrad, Packwood, Roth, Danforth, Grassley, Hatch, and Wallop.

[The press release announcing the hearing follows:]

[Press Release No. H–31, September 17, 1993]

FINANCE COMMITTEE ANNOUNCES HEARING ON NAFTA LABOR ISSUES; LABOR SECRETARY REICH, DONAHUE OF AFL–CIO TO TESTIFY

WASHINGTON, DC—Senator Daniel Patrick Moynihan (D–NY), Chairman of the Senate Committee on Finance, announced today that the Committee has scheduled a hearing concerning labor issues in the North American Free Trade Agreement (NAFTA).

Testifying at the hearing will be Secretary of Labor Robert B. Reich. Also testifying will be Thomas R. Donahue, Secretary and Treasurer of the AFL–CIO and Chairman of the President's Labor Policy Advisory Committee for Trade.

The hearing will begin at *10:00 a.m. on Tuesday, September 21, 1993,* in room SD–215 of the Dirksen Senate Office Building.

"As the Finance Committee considers the NAFTA and develops the legislation to implement it, labor issues—including the Agreement's impact on U.S. jobs and the coverage of the supplemental labor agreement—will be of great interest, Senator Moynihan said.

"The Administration states that, by increasing our exports to Mexico, the NAFTA will create 200,000 additional high-wage jobs in the United States by 1995. Organized labor, in contrast, argues that disparities in wages and working standards between the United States and Mexico will cost us hundreds of thousands of jobs if the NAFTA is approved. I know of no better people than Secretary Reich and Mr. Donahue to provide us with these very different perspectives on the jobs issue and other critical labor matters," Senator Moynihan added.

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. A very good morning to our distinguished witnesses, our guests, and to our colleagues. Senator Packwood is on the floor at this moment in the course of a special order debating the North American Free Trade Agreement on the part of Senators who are actively in support of it. So his absence, Mr. Secretary, is to be taken as a sign of support. Let me put it that way.

Chairman Riegle has to go to the Banking Committee to mark up the community development bank legislation. I believe, sir, you wish to make an opening statement.

OPENING STATEMENT OF HON. DONALD W. RIEGLE, JR., A U.S. SENATOR FROM MICHIGAN

Senator RIEGLE. I thank you, Mr. Chairman. The Banking Committee, which I chair, is about to mark up the community development bank legislation—a top administration and urban revitalization initiative. I must leave this hearing to go do that now.

I want to finish the Banking Committee work as quickly as I can and come back this morning. I am very interested in having time with the Secretary, if I am able to get back in time. If not, certainly with the Labor representative, Tom Donahue, who will be here later.

I just would say that on this one issue, obviously, there is a real division of opinion on NAFTA and on the job loss impact of NAFTA. I am struck by the article today in the Wall Street Journal on page A2 where it indicates that the administration may be attempting to put together a $5 billion worker retraining program, related importantly to the effort to try to sell the NAFTA package.

I, obviously, am opposed to the NAFTA package. But I think it helps illustrate the question of job loss. And beyond the question of job loss, it's the question of retraining for what.

I cannot engage in it right now. Time does not permit. But I got a letter the other day from a gentleman in Texas who wrote a very clear and compelling letter. He has a master's degree, has been through three retraining programs, and still cannot find a job. Part of the difficulty is giving up jobs that we do now have in the hopes of somehow replacing the work later.

I know the Secretary has a keen interest in this. I have a great concern about it. Not just from a Michigan point of view, but the point of view of all 50 States.

So thank you, Mr. Chairman, for allowing me to make that brief comment. I must excuse myself to go mark up our bill in the Banking, Housing and Urban Affairs Committee. I will come back at the earliest moment.

The CHAIRMAN. Thank you, sir.

I, too, know the report in the Journal and that is an important issue yet to be resolved.

Senator Baucus, did you want to make a statement?

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Yes. Thank you, Mr. Chairman. Mr. Chairman, I thank you for scheduling this hearing, particularly the labor aspects of NAFTA, as I believe it is very important we debate NAFTA's potential impact on American jobs, obviously, and also on North American jobs.

The debate on NAFTA, I think, has been long on exaggeration and distortion and short on facts. But nothing has made me personally more angry than those who hold up pictures of Mexican workers laboring in squalor and using that as a reason to oppose NAFTA.

Those pictures represent the state of affairs in Mexico today. But after NAFTA and after the side agreements are in place, the situation of those workers will improve markedly. Despite all distortions, there can be little doubt working people in the United States and in Mexico will benefit, both be better off after NAFTA is enacted.

The economic evidence is overwhelming that NAFTA will create jobs and economic prosperity in both the United States and in Mexico. By removing Mexico's barriers to U.S. imports, studies show that NAFTA will create between 95,000 and 200,000 net new jobs in America.

And almost every single study published on NAFTA concludes the agreement will result in a net gain of jobs in the U.S. Every living American Nobel Prize winning economist recently wrote to President Clinton endorsing the NAFTA as a job creator.

Now in some sectors jobs may be lost, but far more jobs will be created in other sectors. And in sectors where jobs may be lost, the Clinton Administration has embarked, as reported in the paper today, on a bold plan to set up a one-stop worker retraining center to improve skills and help those workers find new employment.

In Mexico NAFTA will directly improve working conditions and give the United States the tools to combat some of the problems that exist now in Mexico. Like many in this room, I have traveled to the United States-Mexican border region. I have been there three times. And I have witnessed firsthand the squallid conditions that exist.

I saw families of 10 people living on meager paychecks of the young children, workers living in fear of losing their jobs, and very unsafe working conditions. It was a real eye-opening experience.

But my trip to Mexico did not make me want to reject NAFTA, just the opposite, because NAFTA, with the Clinton Administration side agreements, represents the only chance to change the status quo and give those workers a better life.

The labor side agreement will force Mexico to enforce its child labor, minimum wage, health and safety laws. And the agreement contains teeth, fines and trade sanctions, to use against Mexico if it does not enforce its laws. Right now we are powerless against such violations.

I believe the crux of the debate on this agreement is whether NAFTA improves the status quo for the United States and for Mexico and for United States and Mexican working people. When you look at the facts, clearly the answer is yes.

Do not believe the crocodile tears of the critics. They want to make a political point. They care little about poverty in Mexico. The NAFTA is a step forward for all people of North America.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Baucus.

Senator Grassley, good morning, sir.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Senator GRASSLEY. Good morning, Mr. Chairman. I thank you very much for holding these hearings. I think that the employment picture as it relates to NAFTA is the basis for the success or failure of this treaty in the end and I believe that lively and enlightening discussions like we are going to have in several committees on this issue is very important for getting the facts out on the table and clearing the air and getting the legislation passed.

Regardless of one's position on NAFTA, everyone I have spoken to raises the question about the potential impact upon labor. CBO concluded that there would be a net gain of between 35,000 to 170,000. The net gain of 170,000 jobs assumed that the industries whose employment would increase because NAFTA would gain about 300,000 as compared to other industries that might lose about 150,000.

CBO in the same study questioned the analysis of the potential loss of between 300,000 and 500,000 jobs and concluded that those estimates appeared to be derived from highly questionable assumptions.

Rudy Donbush, Board, International Professor of Economics, MIT, made the following statement at the CSIS Summit on NAFTA, and this is what he said: "In the period of 1984 to 1987 our trade balance with Mexico averaged the deficit of $5.5 billion. Today there is a surplus of $4.1 billion. That shift of $.96 billion translates unquestionable into a net U.S. job gain."

Ann Kruger, Arts and Science Professor of Economics, Duke University, at the same summit on NAFTA stated: "Rapid and sustained Mexican growth will help the American economy in a number of ways. One, it will provide a larger, more rapidly expanding market for exports.

"Two, if capital in-flows continue in response to the increasing productive efficiency of resources, those in-flows will be offset by a current accounts deficit for Mexico and is our largest trading partner. American exports, too, in trade surplus with Mexico will increase.

"And third, labor intensive processes that are expensive in the United States can shift to Mexico improving the competitiveness of U.S. exports and given the desire of the United States to contain immigration, reduced flows of immigrants will result in the longer run."

Now, despite all these benefits, it is fair to say that there are as many criticisms of NAFTA on the other side. While I myself see some of the benefits of the North American Free Trade Agreement, for Iowa was well as the Nation, there are some concerns, particularly in the home appliance industry.

A recent ITC report concluded the following likely impact: "NAFTA will result in a decline in the U.S. major appliance production and employment of about 5-percent short term, 10 to 15 percent long term. Any decline in the U.S. production and employment will likely occur in the Midwest where a majority of the domestic production takes place."

Now, ironically, the majority of these losses will be borne in those industries that are good corporate citizens in my State and have chosen not to move all or any of their production of their corporate structure to Mexico.

Now, Mr. Chairman, I realize that with or without NAFTA low-skilled workers in the United States will continue to face competition from low-skilled workers in other countries. NAFTA will not amount to much of a reprieve for these workers.

I am concerned about any worker losing his or her job as all of us are very concerned. But I look forward to the Secretary's response on how the level playing field for the workers and the stable good-paying jobs like those for Amana, Maytag and Frigidaire in my State, who the ITC has already identified as losers under the NAFTA agreement as currently crafted, can be worked out to moderate those negative impacts.

Mr. Chairman, the rest of my statement I will put in the record.

The CHAIRMAN. So ordered. Thank you, Senator Grassley.

[The prepared statement of Senator Grassley appears in the appendix.]

The CHAIRMAN. Senator Conrad has arrived. Good morning, sir.

Senator CONRAD. Good morning.

The CHAIRMAN. Would you like to make an opening statement?

Senator CONRAD. I will waive my opening statement for questions, Mr. Chairman, so we can get right to the business.

The CHAIRMAN. Fine.

[The prepared statement of Senator Conrad appears in the appendix.]

The CHAIRMAN. We have a very special witness, of course, this morning, the Secretary of Labor, as has been remarked. This trade proposal is the first of its kind in the United States in the post war period where there is a true division in the nation at large. It is also the first in which the American trade union movement is opposed. They have been valiantly supportive of our efforts to expand world trade from the time of Cordell Hull in the mid-1930's, but most particularly in the postwar period when they have seen trade as an instrument of expanding the influence of democratic values in the world, of increasing the stability and prosperity of developing nations. They have seen it as an aspect of a large struggle with totalitarianism, with communism; and they have been there from the first when American business was sometimes heard from, sometimes not.

So it cannot but be a difficult fact for you, Mr. Secretary, as one very strongly associated with the interests of working people. There is this division, but it will be a civil one and we will debate these matters on their merits, as you have always done and will do today.

I see Dr. Katz, Lawrence Katz. I believe, sir, that you were one of the negotiators of the labor agreement with Canada and Mexico. You are a rising economist in your own right and we welcome you. I believe this will be the first time you are before the Finance Committee.

Dr. KATZ. Yes, it is.

The CHAIRMAN. I am sure it will not be the last. You are very welcome, sir.

Mr. Secretary, if you would proceed, sir.

STATEMENT OF HON. ROBERT B. REICH, SECRETARY, U.S. DEPARTMENT OF LABOR, WASHINGTON, DC, ACCOMPANIED BY DR. LAWRENCE KATZ, CHIEF ECONOMIST, DEPARTMENT OF LABOR, WASHINGTON, DC

Secretary REICH. Mr. Chairman, members of the committee, thank you for giving me this opportunity to talk about NAFTA and its effect on American workers. For the sake of brevity and also to give us more of an opportunity to have a give and take, and debate and discuss, I will submit my formal remarks for the record.

The CHAIRMAN. Fine. We will place that in the record as if read. You take all the time you wish or be as compact as you desire.

[The prepared statement of Secretary Reich appears in the appendix.]

Secretary REICH. Well, I will try to be quite compact. That has been my principle in life.

The CHAIRMAN. Stop that.

Secretary REICH. Let me just make a few general points and then some more specific points. The general points are these. Everyone's goal here, I believe, in this deliberation is precisely the same. That is, more jobs and better jobs for Americans.

The Clinton Administration is committed to that. That is one reason that the President was elected. I am personally deeply committed. Indeed, that is why I came to the Labor Department—more and better jobs for Americans.

The question is one of means. Does the North American Free Trade Act contribute to more and better jobs or does it not? It is my considered opinion, Mr. Chairman, and members of the committee, and it is the considered opinion of the Clinton Administration, that the North American Trade Act with the side agreements does, indeed, contribute the more and better jobs for Americans.

The simple logic is as follows. Right now it is fair more difficult to get products from the United States into Mexico than from Mexico into the United States. Their tariffs are 2½ times ours—10-percent tariffs on average against American goods. And yet notwithstanding their very, very high tariffs, and our very, very low tariffs on their goods, not withstanding that disparity, we now have a trade surplus with Mexico. They are one of our major trading partners.

We have seen since the liberalization measures that began in 1987, we have seen greater and greater exports to Mexico. It stands to reason that if you got down both their high tariffs and our rather low tariffs that exports boom would continue. About 700,000 Americans are now exporting directly to Mexico. Their jobs are dependent on exports directly to Mexico.

Now, let me back up and say something about American export patterns in general. We need exports in order to sustain job growth in the United States. The fastest growing export markets in the world are markets like Mexico—Latin America, Asia. Many of these markets have wages that are substantially below U.S. wages. But trade is not, as mathematicians would say, a zero sum gain, in which either they win or we win.

There is not a finite number of jobs to be parceled out. What we have learned in the postwar era, Mr. Chairman, as you pointed out initially, the United States pioneered a system of international trade. And in that system of international trade we traded on and on with low-wage countries all over the world. In that system of international trade, we gained and they gained. Both sides gained from a system of international trade.

The tentative opening of the Mexican market already has reaped tremendous advantages for America, notwithstanding the fact that their tariffs are still very, very high. It is still very hard to get into Mexico. But even so, we have been exporting.

From 1986 to 1992, U.S. shipments to Mexico grew from $12.4 billion to $40.6 billion. Our $5.7 billion trade deficit in 1987 has been transformed, given the liberalization measures that have occurred just in those years to a $5.4 billion surplus in 1992.

Now, again, I want to stress, that is notwithstanding their tariffs on average are still quite high. Merchandise exports to Mexico today account for an estimated 700,000 jobs and these are good, high-skilled jobs.

Between 1987 and 1992, 48 of the 50 States in the United States increased their exports to Mexico. In 38 States the current dollar value of exports more than doubled; and fully half of the States saw shipments to Mexico increase three-fold or better.

For example, New York State's exports totaled $944 million in 1992. An 80-percent increase since 1987. Growth markets included industrial machinery and computers, electronic equipment, chemical products, plastics. Michigan's exports grew by nearly 32 percent between 1987 and 1992, increasing to over $1.4 billion, with large gains in most manufacturing categories.

Pennsylvania's exports to Mexico totaled $742 million in 1992 with primary metal industries, electric and electronic equipment registering the largest gains. Illinois has enjoyed more than $1 billion in export sales growth, creating approximately 17,000 new jobs. Gains in industrial machinery, computers, transportation equipment.

I could go on and on—48 States out of 50 have been creating jobs and exporting to Mexico. Again, let me stress, that is notwithstanding the fact that their tariffs are still very, very high relative to ours.

Many American companies are going down there in order to sell in Mexico because the only way they can sell in Mexico is to leap over those tariffs. There is evidence that if we did not have those very high Mexican tariffs, many American companies will stay here.

Now, why will they stay here people ask. If there is a wage differential, if it is cheaper to get labor in Mexico, why do American companies stay here? And they do stay here. The reason is, we have an infrastructure, a superb infrastructure—communication systems, highway systems. We have a labor force that is a skilled labor force. We have equipment, machinery. We have a stable government.

We have all sorts of systems in place that make it desirable to produce goods in the United States. If low wages were the key to where manufacturers located, manufacturers would be locating in Bangladesh and Haiti. Those would become the manufacturing capitals of the world.

Our key competitors internationally are not low-wage nations. Our key competitors internationally are high-wage nations, like Japan or the former West Germany. Wages in the form of West Germany are now 60 percent higher than they are in the United States.

Does that stop companies from manufacturing in Germany? No. They are flocking to Germany. Even American companies. In part because of German skills, the infrastructure and all of the surrounding support systems in Germany.

I recently talked to a manufacturer whose headquarters is in Boston. He told me he had a choice where he was going to locate the next factor—in Singapore where wages and skills and infrastructure are far inferior; in Germany where they are far better than in the United States; or in the United States in Boston.

I asked him where did he decide ultimately to locate the factory. Now if he had been interested in the low wages only, he would have gone, obviously to Southeast Asia. If he were interested in other things, well, the choice was between Boston and Germany. But German wages, remember, are 60 percent higher. He told me sadly, Germany, because of the skills, because of the infrastructure, because of the capacity to produce.

If we want a high-wage future for ourselves and our children, we cannot get into the trap of seeking lower and lower wages, competing on the basis of low wages around the world.

That is not what created a strong American middle class to begin with. We have got to improve and go upward. We have got to get better jobs and new jobs.

In addition to generating more jobs in the United States, NAFTA will lead to better jobs. Jobs created by expanded trade typically are the sorts of higher wage, higher skilled jobs in which the future of the American work force depends. Missing the boat on NAFTA, we will prevent us from reaping these potential gains.

Now, let me turn to the side agreements. The President's early support for the North American Free Trade Act was conditioned on the development of additional accords, to bolster the core agreement's terms in the areas of labor and environmental standards and import surges.

Negotiations over the side agreements were concluded last month and signed by the President last Tuesday. I want to briefly summarize the side agreements and then we can talk about them in detail.

The supplemental agreement satisfies the imperative that NAFTA not come at the expense of the environment or at the expense of labor workers' rights, labor conditions in Mexico.

To give this imperative force, the supplemental labor agreement was developed around three fundamental principles. First, enhanced collaboration, cooperation and information exchange among the three countries. Second, increased efforts to make explicit and highly visible each country's labor laws and their implementation.

Let me stress with you that Mexican labor laws and labor standards are as high, and sometimes higher, than labor laws standards in the United States. The issue is one of enforcement. Now, some people would say that we do not do all that good of job of enforcing our own labor laws and labor standards. Many people contend that

Mexico does a worse job of enforcing its own labor laws and labor standards. The issue here is one of enforcement.

I want to stress one other point. We continue to have Section 301 authority. We continue to have the authority to impose unilaterally trade sanctions against any nation that violates internationally accepted rules with regard to labor—labor treatment, labor relations.

Nothing in NAFTA takes away that authority we already have under Section 301 of the international trade laws to unilaterally stop trading with a nation that we feel abrogates those basic rights. What NAFTA gives us for the first time, and this is the first time in any trade treaty, what NAFTA gives us is the opportunity to influence the way in which Mexico enforces its labor laws.

We have an opportunity to shed some light to provide a deliberative forum to institute a process which will, to the extent necessary, prod and push Mexico toward better and better enforcement of its labor standards.

Now, again, let me stress, it takes away nothing. We still have Section 301. But if we are concerned about making sure that Mexico is indeed enforcing its labor laws, we now have the equipment to push and prod and provide consultation and sunlight and investigation and bring it all out into the open. That is a great addition to the extent that Mexico needs that.

There is another issue here and that has to do with the adjustment of our workers. To the extent that any workers may need to have new jobs, to the extent that any workers may need to move from job to job, we obviously want to make sure that they are held harmless. The benefits of NAFTA are enormous for this country, but we should hold harmless anybody who might have to change jobs as a result.

By the way, the percentage of Americans that are going to have to change jobs because of NAFTA, relative to the percentage of Americans that have to change jobs all the time because of military downsizing, corporate downsizing, technological changes or international trade in general is minuscule.

The administration is concerned about the broad issue of job change. Americans are anxious right now. I do not have to tell you, you know. You have been back in your States. You hear it all the time. There is a great deal of job anxiety out there. And I think that to some extent NAFTA has become a symbol, a lightening rod, for a lot of that anxiety.

Even though we rationally, economists and others, can argue and argue and argue and show data and show export figures and show no end of numbers indicating that NAFTA will create jobs and more and better jobs in the United States, that to the average American who is worried about his or her job, that is small comfort.

Even though jobs are beginning to come back after that long recession, a lot of them are not terribly high quality and there is a lot of job insecurity nevertheless. We hear and we read every day about big firms closing down. That job insecurity, I am afraid, is playing itself out in a way that may be somewhat isolationist.

And again, NAFTA has become the lightning rod for that fear, that isolationist tendency. NAFTA is not to blame, but there is job insecurity.

What we need and what the administration will be proposing very shortly is a comprehensive program to help workers to get from job to job.

Mr. Chairman, members of the committee, I will not go into great detail on this point now, but let me just say very briefly, because we are going to be dealing with it shortly with extended unemployment insurance, we have in this country now, and we have almost created it unwittingly, a very, very large system for keeping people intact financially until their old job comes back.

It was called unemployment insurance. And, indeed, beginning in the 1930's and extending up quite recently, it did a great job. It still does a very good job. But it was geared to the business cycle. You were given some money to tide you over until you got the old job back.

We use the term "layoff," temporary layoff. That is how we thought about job change. But in this new economy the jobs are not coming back. Most people who lose their jobs in the last recession have to change.

The CHAIRMAN. Some are not coming back.

Secretary REICH. I am sorry?

The CHAIRMAN. Some are not coming back.

Secretary REICH. Most of the jobs, that is most of the people who lose their jobs, have to find new jobs. And, therefore, to have an unemployment insurance system geared toward simply waiting until you got the old job back may be less effective than a kind of reemployment insurance system that emphasizes job search assistance, job counseling, and retraining for those who need it.

Now, again, I will not get into the details. But just let me say that it should not be in my view, and in the administration's view, NAFTA-specific because the job change is endemic. And what we saw with trade adjustment assistance, which I think was an extremely good program as initiated, it still is a very important program, but unfortunately by the time someone qualifies the administrative cost of figuring out whether someone qualifies for trade adjustment assistance often is very high. And many people who deserve to be helped are not helped.

So we need to think differently about how to ease the adjustment of Americans to the next economy, regardless of cause. Again, NAFTA, I believe, is a very tiny, tiny element with regard to a huge tide of change that is sweeping over America.

I want to end with a personal note, if I may, Mr. Chairman and members of the committee. I said at the start that I took my present job because I care deeply about helping Americans with regard to creating more jobs and better jobs. I would not be here, and the administration would not take the position of supporting NAFTA if I did not believe, and we did not believe, that NAFTA was a major, major step in that direction.

It is true that organized labor takes a different view. We respectfully disagree. We view this as a kind of squabble in the family. Most issues we stand shoulder-to-shoulder or should I say in my case perhaps shoulder-to-waist.

But I do believe, and I think the evidence does support me, that NAFTA is a step, just like the steps we have taken many times in the postwar era, toward a free trade regime in the world which ultimately creates more and better jobs for us and helps everyone in the process.

Thank you.

The CHAIRMAN. Thank you, Mr. Secretary. I apologize for having to step out for a moment. But I did in order to take a call from the President, who when he learned what we were doing here, spoke at some length about your proposal about taking unemployment insurance from an earlier era to the present one, where you associate it with re-employment and training the moment you find that you are in a different situation. You have strong support where it matters a very great deal, based on my experience in the executive branch.

I said earlier that Senator Packwood's absence was a statement of support because he was on the Senate floor with some of our colleagues here speaking in a special order in support of NAFTA. I wonder, sir, if I could ask if you would like to ask some questions or make some opening remarks, whichever.

Senator PACKWOOD. I would love to ask some questions. I might say to the Secretary in about 20 minutes I am going to leave and go make another speech to a private group in favor of NAFTA.

You are familiar with the OTA report on the cost of producing autos in Mexico versus the United States. I was intrigued with their conclusion that wages in the United States are only 8 percent of the cost of the auto and they are 2 percent in Mexico. Do you agree with those conclusions?

Secretary REICH. Yes. And it is a general point, Senator, which needs to be emphasized. Wage costs are a very, very small percentage of the cost of manufacturing, particularly factory wages. If you take any manufactured product—this pen, for example—the percent of that pen which is premised upon factory wages, particularly very low wage factory production, is exceedingly small and getting smaller all the time.

More and more of every manufactured product depends on higher wage activities, whether they be design, manufacturing design, manufacturing engineering or sales, marketing and so forth. The high wage factory jobs are, indeed, increasing in the United States.

Senator PACKWOOD. I have discovered the same thing. In Oregon we have a large truck manufacturer, Freightliner, which makes these big over-the-road trucks. In fact, they have how become the biggest manufacturer in the United States of these trucks.

At the moment, they are having to send their trucks to Mexico in kit form and then they assemble them in Mexico because of the content laws. When this is done, they are going to expand their plant in Portland, hire more workers, and they are going to send the finished trucks from Portland. They have no intention of moving down there.

I was struck when they said 75 percent of their cost is components. I do not know what the wage content of the components is. They are union organized. They are high, high-wage operations.

In talking with most of the electronics industry in Oregon—and we have for the size of our State a disproportionately large electronics industry—and you ask what are your wage costs. They say, well, you mean floor labor and by that they mean the manufacturing and not the research and development, which they would not move, and not their top management, which they are not going to move, oh, they will say, 7 percent, 8 percent. It is not worth moving.

They might move for reasons of being in the market. They might move for reasons unrelated to wages. But they are not going to move for wages.

Secretary REICH. Well, that is a terribly important point. Some companies do move to Mexico because it is so hard to get into Mexico other than moving there. And once we get those tariffs down, that incentive to move to Mexico in order to sell in the Mexican market will no longer be there.

Senator PACKWOOD. A question on the job retraining. I noticed Chairman Ford in the House indicated today he does not want it tied to NAFTA. Is the administration wedded to tying an overall retraining program to NAFTA or not?

Secretary REICH. Our desire would be a broad-gauged comprehensive retraining program. Americans need—and it is not just retraining. It is job search assistance and job counseling at one-stop centers.

Senator PACKWOOD. Or does it need to be tied to NAFTA?

Secretary REICH. No. Regardless of why you lost your job, we have military downsizing now that is affecting many, many more Americans that will ever be affected by international trade, such as NAFTA. We have even a health care proposal which is going to require a tremendous shift of people out of the paper health care profession, let us put it that way—insurance, and monitoring, and filing, and forms, and entering data into computers and taking data out of computers—and moving into other occupations, such as home health care.

In fact, a recent study by Joshua Wider at Brookings suggested that there will be 750,000 new jobs in home health care as a result of the President's health proposal.

Well, again, Americans faced with this tremendous change in jobs need help in moving from job to job. In the old days, you could stay with your old employer, perhaps for 10 years or for your entire career. Those days are over. And it is not because of NAFTA, the North American Free Trade Agreement. It has absolutely nothing to do with that.

Senator PACKWOOD. I understand. But I did not understand your answer. Does this portion of the legislation have to be tied to NAFTA or can it be done separately?

Secretary REICH. It can be done separately.

Senator PACKWOOD. The next question. It would seem to me, if there are any industries we might lose it might be not high-wage capital intensive, but low-wage very labor intensive industries where wage costs are 20 or 25 or 30 percent of the total cost of the product. Do we run any risk in those areas?

Secretary REICH. My judgment, Senator, is that we have already lost most of those, not just to Mexico but also to places where wages are far cheaper and far lower than Mexico.

If a company is interested in low wages, per se, if that is the centerpiece of its strategy and its cost structure, if it is very labor intensive and it is very, very low wage, low skill labor intensive, it can go to places around the world where it can get much cheaper labor than in Mexico.

Let me also add that given the Maquiladora Program, American firms that are interested in getting low-wage labor and then having essentially duty-free access to the American market already have that—already have that. That is the present status quo.

Senator PACKWOOD. A good example is the apparel industry in Japan. Twenty-five years ago Japan was in the top 10 on the exports of both apparel and textiles. They are still in the top 10 today in textiles. It is a capital intensive industry. They do not even rank in the apparel export. They gave up on that. They figured this is not an industry we are going to compete in.

You are hard pressed to find any kind of a piece of closing that says made in Japan sold in this country. I think that is the kind of industry we might risk losing. I think we ought to face up to it. The countries we are going to have these agreements with are going to have to have some capacity to buy from us and they are going to have to some industries.

If we try to save every job in every industry under all circumstances, no matter what—I mean save it; I do not mean retrain somebody, I mean save it—then I think we would be making a mistake.

Secretary REICH. Senator, that has been our attitude in the entire postwar era. That is, we have consistently through open trade regimes—and, Mr. Chairman, you mentioned it in your opening address—that we said over and over to ourselves, trade not aid. Let us trade in terms of—well, even stemming the communist menace in those days, trade was viewed as a way of making sure that all boats were rising.

Our attitude had been that, yes, they may take some very, very low wage occupations involved in international trade, but we will have the benefit of that and we will all rise together.

Let me make one other point, very briefly. Even were we to do something, which I absolutely do not recommend, I think it would be a disaster, and that is put sort of walls all around the United States and not trade with anybody who had very, very low wages, even were we to do that, the very low-skilled, very low-wage jobs in America would still be vanishing because of technology.

Because any individual producer would have an incentive to automate those jobs. Recently I had occasion to tour a factory in Cleveland, the electrogalvanizing plant. It was putting zinc plating on steel. Those workers were not low-wage workers. They were not low-skilled workers. They were sitting behind computer consoles. They were making very subtle judgments in terms of the strength and the amount of coating to be put on that steel according to customers.

They had to be right there with the customers, working with the customers on that design. I talked to those factory workers. They were getting a lot of training. They were not the unskilled factory worker of another nation. These people were earning good livings because they were adding substantial value.

Those are the kinds of jobs we can keep. Indeed, those are the kind of jobs that will expand as we have more and more of developing nations to export to.

Senator PACKWOOD. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Packwood.

We will just follow our regular order. Senator Baucus, who is Chairman of our Subcommittee on Trade, and who would have been on the floor except he thought his first duty was to be here. Sir?

Senator BAUCUS. Thank you very much, Mr. Chairman.

Mr. Secretary, a lot of people who were opposed to NAFTA pointed out to nominal low wage rates in Mexico, 60 cents a day some say. If you calculate in productivity and all compensation, what in your judgment are the wages in Mexico today compared with the nominal low rate? What are the actual wage rates that a businessman faces today in Mexico?

Secretary REICH. If you factor in—you put a clause in your question which is a terribly important clause—that is, if you factor in productivity. Now let me come back to that because productivity is of the essence.

Given our infrastructure, given our skills, our educational and training systems, given our communication systems, our ability as a nation to be productive, we have been able to maintain a relatively high standard of living. That is the key to maintaining a high standard of living.

Businesses will locate here even if our nominal wages are higher because the unit costs, the costs of producing and individual widget, are still lower here and delivering it to a customer, given that our productivity is so much higher.

The key to our future standard of living is not lower and lower wages. It is higher and higher productivity. So the answer to your question very briefly is, the reason business people still do an awful lot of their work here instead of going to lower waged nations or even to Mexico where they could get in—as I said, Maquiladora, they can get in duty-free to the United States—is because of our high productivity in the United States.

Senator BAUCUS. My question really gets at, what are the practical wage rates of Mexico from, say, 60 cents an hour, the calculated productivity and to calculate in other compensation on wage-based compensation? Is it not true that for industrial wages, as a practical matter, wages go around $5?

Secretary REICH. Well, there is a great debate on that point, Senator. I have seen figures ranging from anywhere from 60 or 85 cents an hour all the way up to $4.50 or $5.00 an hour, if you figure in all of the benefits and all of the other nontangibles that are not nominal wage rates.

I can say that I do not feel confident, on the basis of what I have seen in the study, giving you a precise figure on that. There is no question that wage rates in general are lower in Mexico, and again, they are lower in most of the rest of the world. If that was going to be our criteria for whom we are trading with, then we would not trade with the rest of the world.

Senator BAUCUS. I got those figures from Brookings and also from the IMF.

I guess to a next question. I am a little concerned that when the common market was put together Spain and Portugal were put off. Those are countries with lower wage rates, more per capita income.

And it took quite a few years for the common market to finally integrate Spain and Portugal. But Mexico is a low-wage rate country-wide, more per capita income. So we should incorporate Mexico into the American economy. Your response.

Secretary REICH. Let me make two points there. Portuguese wages before Portugal entered the common market, I believe, were about 19 percent of average European economic community wages. Mexican wages, again, given the caveat I just gave you, because it is very, very difficult to say, but let's take a very conservative estimate, an estimate on the low side, around 13 to 15 percent of American wages, not all that different between Mexico and Portugal.

Well, what happened? What happened after Portugal entered the common market, like Spain, is that their wages went up but everybody else's wages went up as well. That is, it was, as I said in the beginning, what mathematicians would call a positive sum gain. Everybody gains from trade.

Now it did take some time. Certainly it did take time to do that. But also let me emphasize that it is not as if we have not been trading with Mexico; we already have been trading with Mexico. We already have been putting plants in Mexico.

What we are contemplating here through the North American Free Trade Act is not a radical departure from the past. Mexico is already a major trading partner with the United States. What we are contemplating is a step toward more economic integration, which brings those huge tariffs down and enables us to export more to Mexico.

Senator BAUCUS. One quick point here. When I and others point out that Mexican barriers, as you did in your opening testimony, are 2½ times U.S. barriers, so logically with barriers eliminated more product is going to go from the United States to Mexico.

Some counter by saying, well, gee, that might be true with respect to the products, but the actual effect of all this is going to increase U.S. investment opportunities in Mexico. The argument is, although with lower barriers, there are fewer incentives now to locate a plant in Mexico.

Still, NAFTA will enhance Mexico's status in the world. It is going to be a better place to do business. And perhaps infrastructural problems will be addressed. Therefore, that is more incentive for American companies to invest in Mexico. So that is going to be a job loss in America in response to that.

Secretary REICH. Let me make two points there. Number one, right now many American companies are investing in Mexico because that is the only way of getting access to the American market. We get those tariffs down; we remove that incentive.

But number two, we want a prosperous Mexico. That does not in any way take away from our prosperity. In fact, quite the opposite. The more prosperous our neighbor to the south, the likelihood, the more prosperous we will be. It is not as if their prosperity comes at our expense or our prosperity comes at their expense.

The history of trade—particularly we have seen it since the Second World War is that the more trade, the more economic integration, the better everyone is. And the mere fact that you start from different socioeconomic conditions or different wages does not change that fundamental proposition.

Mexico has become a major export market for us—$5.4 billion more are exported to Mexico from the United States than are exported from Mexico to the United States, even though we have those high barriers; 700,000 Americans are now exporting to Mexico. That is what their job actually is in terms of the kinds of work they do. They would not have those jobs were it not for Mexico.

The CHAIRMAN. Thank you, Senator Baucus.

Secretary REICH. I just want to say in very quick summary——

The CHAIRMAN. Mr. Secretary, you can say the same thing to Senator Grassley.

Secretary REICH. Okay.

Senator GRASSLEY. On my time, I suppose. [Laughter.]

Mr. Secretary, is there anything in the side agreements that infringes upon any of the political sovereignty of any of the three countries involved in NAFTA?

Secretary REICH. Absolutely not, Senator.

Senator GRASSLEY. My next question may sound awful parochial, but I want to get it from the standpoint of your interest in job retraining. First of all, you know, Mexico is Iowa's seventh largest trading partner. And generally speaking, for agriculture and even for business and manufacturing it is pretty good for upper Midwest States.

But in this one area I mentioned in my opening comment about the home appliance industry. We have Amana, Maytag and Frigidaire, 7500 jobs, awfully good paying jobs in our area, and it happens that GE and Whirlpool went over into Mexico and made joint agreements there.

So when this NAFTA gets in place immediately there will not be any duty on home appliances coming to this country, but there will be a ten-year phase-out of whatever tariff there is on our products going into theirs. So I think that creates a very unlevel playing field for Amana, Maytag, Frigidaire versus Whirlpool and General Electric.

So particularly from your standpoint that you are saying we will have to spend money on job retraining. I think most of that you think will be in the area of lower paying jobs. In this particular instance, it could be in higher paying jobs.

Considering the fact that we also want to—it seems to me like we want to reward or at least not encourage goods jobs in America to go to Mexico, good jobs of Amana, Maytag, they chose to manufacture in this country and export out rather than taking their manufacturing overseas.

So from two standpoints, it seems to me like this is disincentive to those companies that want to stay in America. And secondly, from the standpoint of money you are going to spend on job retraining, would it not be better to work these tariff problems out rather than spend money on the retraining.

Secretary REICH. Well, now, two points, Senator. First of all, with regards to the appliance provisions, Ambassador Kantor is at the moment looking into this issue. We will get back to you, and I will get back to you, and we will make sure that that playing field is level.

On the second point of training, retraining, job counseling, job search assistance, let me just say that this is an issue that underscores all of the changes affecting America from defense builddowns, corporate downsizing, international trade, health care, almost everything that is going on. Americans do need to move more easily, with greater security, from job to job.

If job security is a thing of the past, well, employment security should not be. And the unemployment insurance system on its own is probably not adequate. But I do not want to suggest, and I did not in any way mean to suggest, that the North American Free Trade Act, per se, is going to create a lot of displacement. I do not believe it will.

Senator GRASSLEY. Another a question that I think is awfully well—a point that is in opposition in NAFTA that is awfully well received by opponents and then spreading a lot of misinformation I think comes from Mr. Perot when he makes the point that the reason we are exporting and we have a surplus in our exports to Mexico because of capital machinery and other capital investment that is going south of the border to manufacture things that are coming back in.

I do not happen to agree with that, but I think we ought to emphasize. So I am asking you to speak to that point. Because in a recent year we had $34 billion investment overseas and only $2 billion of that was in Mexico. I do not really think that that is factually correct that we have a lot of capital machinery going south to create jobs and that is the reason we have this massive trade surplus.

Secretary REICH. No, that is not the reason we have the massive trade surplus. That $5.4 billion trade surplus—actually, I think it is growing even as we speak; some estimates have it higher than $5.4 billion—is not due primarily to capital machinery. I believe that even if we get their tariffs down, capital goods will not be a primary export.

But if you look at the strategy that Japan has been using, for example, or even the former West Germany or any high wage nation, what you see is that more and more of their exports to developing nations inevitably do become capital goods because they have a comparative advantage in exporting capital goods and they are not afraid that developing nations will start manufacturing with low-skilled, low-waged labor because the developed nations—Japan and the former West Germany—continue developing better and better capital goods machinery.

Again, it is not as if there is a sort of finite limit to either the number of jobs or the degree of innovation. I recall at the turn of the century the American Buggy Whip Manufacturers Association was very distressed at the possible job loss from the horseless carriage.

Technology does not stop. Technology continues to move. And as long as we train and retrain our workers, as long as we have workers who are capable of being trained and retrained, and companies willing to move to higher and higher value-added production, we are in fine shape.

My greatest worry over the last couple of weeks has not come from NAFTA; it has come from the report of the degree to which

Americans are illiterate, functionally illiterate, adult Americans. That is what we should be debating, not NAFTA.

The CHAIRMAN. Thank you, Senator Grassley; and thank you, Mr. Secretary, once again.

Senator Conrad, at long last.

Senator CONRAD. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for being here this morning. You indicated in your initial remarks that the 48 States have experienced growth and trade with Mexico. Can you tell us what are the other two States?

Secretary REICH. That is a very, very, good question, Senator. This is the kind of occasion where I rely on our Chief Economist, Larry Katz, who is going to scramble right now and find out which are the two States.

Dr. KATZ. One of the them is North Dakota and the other is Utah.

Secretary REICH. North Dakota and Utah. But let me add that——

The CHAIRMAN. I would like to congratulate Dr. Katz. Your moment came and you rose magnificently. [Laughter.]

Dr. KATZ. Thank you.

Secretary REICH. But the mere fact that those two States are the exceptions, or the glaring exceptions, to the rule does not mean that those States will not share in the export boom to follow a reduction in Mexican tariffs. It simply means that since 1957, the beginning of liberalization, those two States have not had the same benefits that other States have had.

But if you extrapolate on the basis of where all States have been, I would expect that all States will benefit from those exports.

Senator CONRAD. Well, I asked the question because I knew that my State had not seen an increase. In fact, from 1987 to 1992, according to Commerce figures, we have seen a dramatic reduction, a 63-percent reduction in exports to Mexico. That gives us great concern about what we might see over the horizon.

Let me ask you this question. In listening to you this morning, I do not think you are saying—I would be interested in what you are saying—that no one has gone to Mexico because of low wages.

Secretary REICH. No.

Senator CONRAD. You are not saying no one has gone because of low wages?

Secretary REICH. No. There are two reasons why any American manufacturing company might have gone to Mexico. One reason is for access to a very, very rapidly developing Mexican market. As I said, there one of the primary incentives was to leap over very high tariffs. If we got that tariff down, presumably that incentive would go away and we would have more American companies exporting to Mexico than going there.

The second reason is to utilize low-wage labor undoubtedly. But my point there was that because we have a Maquiladora region already, the chances are that any company that went there to utilize low-wage labor has already gone there to utilize low-wage labor. There is no great new incentive that is going to be created because of NAFTA to move to Mexico to utilize low-wage labor. They can do it right now.

Senator CONRAD. Isn't there though, really? I mean, if you were a U.S. business and you were a labor intensive business and you had not gone to Mexico because you were concerned about insecurity in Mexico, and you were concerned about the differential that exists between labor standards and environmental standards, and you were concerned about infrastructure and all the other things you mentioned; and if NAFTA does hold out the prospect for development and growth and, just because there is an agreement, there is some greater security in going to Mexico, would that not provide an increased incentive for companies, especially those that are labor intensive, to consider the very attractive differential in wages?

Secretary REICH. Senator, there is undoubtedly a set of companies, and I do not know how large it is—I would expect based on data that I have seen, a very, very small set of companies—premised on very low-skilled, low-wage labor whose business strategy depends upon low wages, not on high productivity through machinery and infrastructure or access to market who have not already gone to a low-wage, low-skilled nation and who might be tempted to go to Mexico because it is slightly more stable as a result of the United States-Mexican or the North American Free Trade Agreement.

But I would venture to say that all of those conditions I applied to determining what that set is suggests that that set is very, very small. I am not going to tell you that there are not such companies. Obviously, there are.

On net, 24 out of 25 studies, which have been done recently looking at the likely affects of NAFTA, have concluded that the net job effects will be positive. Now that is 24 out of 25 studies.

I am the first one to admit because of my previous life that there are a lot of studies around and you can almost prove anything by studies. But these are neutral studies. These were not done on the basis of any particular sponsor or trying to sell any particular point of view. And 24 of the 25 studies have concluded that on balance NAFTA means net job growth, because of all those exports; and also on balance NAFTA is good for the American economy.

The CHAIRMAN. Thank you, Mr. Secretary.

Thank you, Senator Conrad.

Mr. Secretary, do not say things like you can prove almost anything with a study.

Secretary REICH. That is very sacrilegious of me, I realize.

The CHAIRMAN. Dr. Katz is nodding approval this very moment. Senator Bradley?

Senator BRADLEY. Thank you very much, Mr. Chairman.

Mr. Secretary, I would like to clarify just a few points on the labor side agreement and then move to some other questions. Does the agreement limit any rights currently enjoyed by U.S. workers?

Secretary REICH. No.

Senator BRADLEY. Can you think of any way that American or Mexican workers would be better off without this side agreement? In other words, the side agreement is an improvement over the current circumstance.

Secretary REICH. Yes, that is right. And again, you are raising a very important point in general. That is, we must compare the present, the status quo, with the future, which we are seeking. And undoubtedly the side agreement improves the plight of Mexican workers over the status quo.

Senator BRADLEY. The previous question from Senator Conrad went to the question of is there a class of low-wage, low-skilled employers who might move to Mexico.

If we could come at it from a slightly different angle, in the last decade many of those low-skilled, low-wage jobs have gone to Asia. Is there any possibility in your mind that some of those jobs that have gone to Asia might relocate in Mexico and that the workers who are paid those wages might spend $7 out of every $10 of imports on U.S. goods, thereby generating jobs in the United States?

Secretary REICH. Yes, there is some evidence that jobs that have gone to Asia purely because American-based manufacturers, or for that matter European or other high-wage country manufacturers, have needed for strategic reasons to utilize low wages might come to Mexico because of its proximity to the U.S. market. That is absolutely correct.

Senator BRADLEY. Earlier you made a point about—I think you used the word minuscule—that every year there are a certain number of job changes in America. Those job changes are related to defense downsizing, technology, competition from Japan or Europe or other countries. You said that the job changes related to NAFTA would be minuscule.

Do you have a more specific range? I have seen a number in one study that says that the job loss directed directly from NAFTA would be 1 percent of the annual job changes. Was that what you mean by minuscule?

Secretary REICH. Well, let me give you a couple of statistics on that. First of all, about 2 million—actually it is 2.2 million—Americans are losing their jobs each year and have to find new jobs. The vast majority of those people are losing their jobs because of either defense downsizing, corporate downsizing, international trade in general or technological change, which is responsible for many, many job losses, particularly at the low-wage area because so much is being automated. And if you do not have the skills necessary to use new automated machinery, you are often supplanted.

The amount of displacement caused by the North American Free Trade Act is estimated to be very, very small. I do not have a specific figure. Perhaps Dr. Katz has a specific figure on that.

But the point I made is, relative to the gale force winds that are affecting American workers right now, this displacement, the necessity for finding a new job, is going to be very small. And the net effect—I want to emphasize the net effect—is creating more jobs, not destroying jobs.

Do you want to add anything to that, Larry?

Dr. KATZ. There is no definitive way of getting a number of the workers who would be dislocated. It is true that over 20 million workers have been dislocated in the last decade. Estimates of NAFTA are in the range of 10,000, 15,000 a year. Comparing that to a static status quo should be remembered that not having NAFTA also is a shock and will dislocate workers. It is not clear that there will be more.

Secretary REICH. That 20 million figure I want to clarify, is American workers who have been displaced over the past 10 years for all causes.

Dr. KATZ. Right. All causes.

Senator BRADLEY. Is it also true that those numbers relate to Mexico-United States? And if you have a NAFTA that makes the United States more competitive against the real threats to jobs in America, meaning Europe and Japan and China that that consolidated economy might create jobs that exceed even the marginal displacement due to the NAFTA on a bilateral basis?

Secretary REICH. Yes, absolutely. Another point needs to be made that has not been made so far, Senator. Mexico as a rapidly growing market is a very attractive target for any advanced nation with regard to forming a trade agreement. There are other advanced nations—I would not be surprised, for example, I would not be surprised if Japan were to form a trade agreement with Mexico if we failed to form a trade agreement with Mexico. I say that not in a threatening way because I think again trade agreements that are in the general direction of opening markets are good, but Japan in that case would gain many of the benefits that we otherwise would gain.

Senator BRADLEY. And their only hurdle would be a 4-percent tariff?

Secretary REICH. Yes.

Senator BRADLEY. For exporting to the United States?

Secretary REICH. Yes.

Senator BRADLEY. Mr. Chairman, I hear the buzzer. I would have one more.

The CHAIRMAN. Please do.

Senator BRADLEY. I would like to get clear on this point because I think that this is one of the arguments that are made against NAFTA. You pointed out that 24 of 25 studies demonstrate net job creation. The one study that does not I assume is the Perot study. But that is a separate issue.

My question to you is——

The CHAIRMAN. I do not think in Secretary Reich's data resources he would consider that book a study.

Senator BRADLEY. Okay. Fine. [Laughter.]

Well, Mr. Chairman, with that——

Secretary REICH. That's right. I did not include the Perot whatever it is. I included the Economic Policy Institute study.

Senator BRADLEY. Okay.

Secretary REICH. That was the one.

Senator BRADLEY. That is the one?

Secretary REICH. Yes.

Senator BRADLEY. Now, the argument that is made by people who are concerned that 24 studies might be wrong and it is the one study that might be right is that none of the 24 studies took into account the question that Senator Baucus asked which was investment flows.

The assumption is that investment automatically means loss to the United States. It seems to me that one of the issues that we have debated with regard to Japan, ad infinitum, is that the Japanese get into a market with an investment and that then is a magnet for their dramatically expanded exports to that market.

So my question to you is: How would you choose to address this concern that somehow or another if there is investment in Mexico that that is a loss to the United States, even though 24 studies will say that net job creation in the United States is positive?

Secretary REICH. Interestingly, Senator, you point up an irony. Many of the people who are an have been concerned about Japanese investment in the United States do utilize the argument that Japanese investment is a magnet for other forms of Japanese trade, that it causes more and more trade benefits to Japan.

And, of course, the logical implication there, followed through Mexico, would be that our investment in Mexico would be a magnet for American exports.

Let me also suggest, as I did with a number of jobs and also technology, investment is not a finite source as well. We are talking about global investment. Right now many investors from Europe and from Japan are coming into the United States and they are setting up good factories, good jobs. Why? Because we have the environment which attracts those investors.

The CHAIRMAN. Thank you, Senator Bradley.

Senator Danforth?

Senator DANFORTH. Mr. Secretary, I have been attempting to put myself in the place of people who are opposed to NAFTA by asking myself if I were a protectionist, if I really believed in keeping out the goods and the services of other countries, what are we losing by entering into NAFTA.

My understanding is that under the present state of affairs half of the Mexican exports are entering the United States duty-free right now; and that the average U.S. tariff is only 4 percent. So if you were a protectionist, it would seem to me to be a pretty flimsy version of protectionism that the United States now has that it would be giving up by NAFTA.

Have I missed something?

Secretary REICH. No. I think, Senator, you are correct and perhaps many of us have missed something because I cannot quite understand the logic on the other side. Your question, I think, is very well put. Because half of the exports to the United States are entering from Mexico and are entering duty-free, three-quarters from the Maquiladora are entering already duty-free, and because all of the rest have a very tiny 4-percent tariff relative to a much, much larger barrier set on American goods entering Mexico, we do have for all intents and purposes a free-trade relationship with Mexico with regard to American companies or any companies getting goods from Mexico into the United States.

Senator DANFORTH. One way.

Secretary REICH. One way. It is a one-way relationship. It would seem to me we have everything to gain from making that a two-way relationship.

Moreover, the labor side agreements permit us some leverage in improving labor standards in Mexico, which we now do not have.

Senator DANFORTH. Now, the other thing I do not understand is all of this business about the flight of jobs. I mean, it is just an assertion that Mr. Perot and others make—we are going to have this flight of American jobs to Mexico.

I do not understand how that is supposed to happen under NAFTA. What is it? I mean, just trying to look at it from their standpoint, what is it in NAFTA that conceivably would cause a flight of jobs from the United States?

Secretary REICH. Senator, I think that the—and again, trying to look at it from the standpoint of many opponents—and I respectfully disagree. I think many opponents, some of my best friends are opponents of NAFTA, but I respectfully disagree. I think looking at it from their standpoint, there is simply a straightforward fear that has—it is simply looking at the Mexican nominal wage relative to the American wage and simplistically assuming that because that is so attractive more American companies will go down there, without considering any of the other factors we have been talking about.

Senator DANFORTH. Well, what does that have to do with NAFTA?

Secretary REICH. In my view it has very little to do with NAFTA, because as you said, it is right now very easy for American companies to go there, manufacture on the basis of low wages—they are already doing it—and come back in the United States.

By the way, again I want to emphasize, if an American company is interested in low wages, per se, there are lower wage places around the world than Mexico already.

Senator DANFORTH. But doesn't Mexico now have artificial inducements for American and other companies to locate in Mexico, which artificial inducements would be eliminated or phased out under it?

Secretary REICH. There has been a series of trade liberalizing measures under the leadership of President Salinas, which have gradually phased out artificial impediments to export into Mexico and also various artificial subsidies. NAFTA would accelerate that trend in terms of getting rid of those subsidies.

Senator DANFORTH. Now, the Maquiladora program is an artificial program that is designed to draw factories, draw job opportunities in an artificial manner to Mexico. Do you know how the Maquiladora program works? My understanding is that it basically is a free-trade zone.

Secretary REICH. It is a free-trade zone on which there is no duty upon the value added in Mexico.

Senator DANFORTH. Provided that the goods are exported somewhere and the plants are located on the U.S. border, right?

Secretary REICH. Yes. The NAFTA would essentially eliminate that Maquiladora special trade zone.

Senator DANFORTH. Now, again trying to put myself in the position of Mr. Perot and others, how would America be disadvantaged by eliminating the Maquiladora program?

Secretary REICH. It would not be, Senator.

The CHAIRMAN. Mr. Secretary——

Secretary REICH. Let me make a more general point.

The CHAIRMAN. Mr. Secretary.

Secretary REICH. Yes?

The CHAIRMAN. Sir, with great respect, Mr. Donahue of the AFL–CIO is testifying next and give them some semblance of equal time.

Senator DANFORTH. I am sorry.

The CHAIRMAN. I do wish we could go directly with our——

Senator DANFORTH. Mr. Chairman, I apologize. I did not notice the light.

The CHAIRMAN. You are very generous, sir.

Senator Wallop?

Senator WALLOP. Thank you, Mr. Chairman. As part of my time, Mr. Secretary, go ahead and conclude your answer to Senator Danforth, if you wish.

Secretary REICH. Well, I wanted to make a more general point. That is, we must acknowledge—we must knowledge—the degree of job anxiety in the United States right now. This cannot be papered over. We have had a very prolonged recession. Americans still are deep in debt, many of them. Americans are very, very worried about their jobs. They are easy prey, Americans, to demagoguery of all sorts; and not just demagoguery, but to differences of opinion and simply mistaken assumptions which are, in my view, very simplistic.

But at base, I think the opposition to NAFTA has to do with a very legitimate concern about the future of jobs in America. And we all need to be concerned about that.

Senator WALLOP. Let me follow that then because I am struck by the sort of shamelessness of Mr. Perot as he runs about the country trying to terrify Americans. Would it not be a fair thing to say that whatever "sucking sound" existed is south to north at this moment in time?

I mean, how many people do you think we have coming across annually?

Secretary REICH. There are no good estimates of the numbers of Mexicans coming illegally into the United States. We do know that the rate has been very high. It seems to be increasing.

We do also know that a lot of that, in fact probably a majority of it, is motivated by the need, the desire for jobs.

Senator WALLOP. Fleeing poverty to prosperity.

Secretary REICH. Yes.

Senator WALLOP. So that America, really, in looking after its own self-interests needs a prosperous neighbor to its south.

Secretary REICH. Well, we need a prosperous neighbor to our south not just because we may want to stem the tide of immigration, but also because we want a stable neighbor to our south.

Senator WALLOP. And for our own prosperity in the North, so that we can trade more.

Secretary REICH. And for our own prosperity in the north. But we have not talked about in this hearing so far the importance of this trade agreement for Mexican stability, continued prosperity, and the unfolding of Democratic reforms.

Senator WALLOP. Mr. Secretary, the administration was asked in a briefing about whether right-to-work States would be affected by some of the provisions of the labor side agreement; and the administration replied that the agreement does not affect any sub-Federal statutes.

However, the State right-to-work laws, as you well know, are authorized by Federal statute. Could this Federal authority be eroded by any of the labor side agreements?

Secretary REICH. No.

Senator WALLOP. So that is a fight that we would take on, if it is to be taken on, through Congress?

Secretary REICH. Yes.

Senator WALLOP. The re-employment program of which you speak, as I understand, is a $5 billion program as it is currently conceived.

Secretary REICH. I'm sorry?

Senator WALLOP. The re-employment program.

Secretary REICH. Yes.

Senator WALLOP. When our staffs were briefed about it, about the financing, it was suggested that the payroll tax would be one way of doing it. I wonder, in light of the payroll taxes that are implicit in an employer mandate for health care, and other kinds of things, if that might not be something at which we would look rather carefully. That might create more of a flight to Mexico than the trade agreement.

Secretary REICH. We would not do anything, and we would not propose anything which in any way deterred employment in the United States. No decision has been made on that, Senator. Right now we are in this time of belt-tightening, we are trying to locate sources of funds.

Senator WALLOP. I think honestly that one of the ways in which we would lose jobs is to create, not a labor-expensive, but a conditionally expensive job market in the United States where people might seek relief by going to Mexico or anywhere else.

Do you have any idea how much we, at the Federal and State level, spend on providing health and human services and education to illegals that are coming across the border?

Secretary REICH. I have not seen a good estimate.

Dr. Katz, have you seen a good estimate of that?

Dr. KATZ. I do not know a good aggregate estimate. There are some for California.

Secretary REICH. We could try to get that to you, Senator.

Senator WALLOP. It is an interesting figure. How much do we spend just providing the border patrol on the southern border? Do we know?

Secretary REICH. And, again, we could get that estimate to you. I do not have that information.

Senator WALLOP. Mr. Chairman, it seems to me that one of the things that is a benefit, a potential benefit, of this agreement is considerable relief from the extraordinary pressures that exist on that southern border today. Ross Perot notwithstanding, the "sucking sound" is from prosperity north of the border.

I thank you, sir.

The CHAIRMAN. Thank you, Senator Wallop.

Can we get that data, Mr. Secretary? I am sure you can. We would appreciate it.

Secretary REICH. Yes.

[The information requested was not received at press time.]

The CHAIRMAN. Senator Wallop, though, could I suggest that you do not really mean to refer to the statute of the State of Wyoming as sub-Federal, do you?

Senator WALLOP. No. That is precisely why I took exception to the idea. The administration said that they did not affect sub-Federal statutes.

The CHAIRMAN. The administration referred to Wyoming as something sub-Federal?

Senator WALLOP. It was implied and I just wanted to make certain that we understood.

The CHAIRMAN. Check that out, Mr. Secretary.

Secretary REICH. We will check it out.

The CHAIRMAN. It will not help you——

Secretary REICH. I am sure it is not sub-anything.

The CHAIRMAN. [continuing]. The least little bit.

Senator Hatch?

Senator WALLOP. Mr. Chairman, could I ask that a statement be inserted in the record in the appropriate place.

The CHAIRMAN. Please and I am happy to do.

[The prepared statement of Senator Wallop appears in the appendix.]

Senator HATCH. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. We appreciate all the hard work you are trying to do. I read with interest the statement of the AFL–CIO Executive Council which was made at its annual meeting in Bal Harbor, Florida.

It seems to me their strongest objections to the agreement with Mexico are based on their perception of the American worker and the nature of United States-Mexican trade. They say, for example, Mexico's per capita income is one-tenth that of the United States.

One half of all trade is between branches of U.S.-owned corporations. The average Mexican manufacturing wage is about the same as the hourly wage in the United States and the Maquiladora region is a shanty town that further impoverishes Mexican workers.

Now am I not correct in saying that NAFTA will virtually eliminate each of those particular grievances?

Secretary REICH. The North American Free Trade Act should improve the wages and working conditions of Mexicans, particularly the side agreements are designed to give us leverage, to prod and push Mexico to the extent that Mexico needs prodding and pushing in the direction of improving its enforcement of labor standards.

I want to add that the labor standards, the official labor standards, are actually quite good. It is the enforcement issue again.

Senator HATCH. Right.

Secretary REICH. Which is in question. The Maquiladora region exists right now. The environmental standards will help improve that condition.

Senator HATCH. So in every case it will be an improvement.

Secretary REICH. So that we are dealing as Senator Bradley and I were talking a moment ago, the real choice is not between some ideal state and NAFTA; the real choice is between what exists right now and NAFTA. It seems very, very clear on the issues of labor, wages, working conditions, environmental conditions, and also our exports to Mexico and the necessity of many American companies leaping over their high tariffs to invest in Mexico, that on all those grounds the situation will improve through NAFTA.

Senator HATCH. I appreciate that. We are told that Mexican wages which were admittedly lower than the United States will drive U.S. companies south. I realize that the average Mexican manufacturing wage is $26 a day, as I understand it. This is less than what many auto workers make in an hour and a half some people think.

I have my own ideas as to why wages alone will not be a sufficient magnet. But I would like to hear your opinion on it.

Secretary REICH. There are several reasons why American companies do not center their manufacturing strategies or even move all of their plants to low-wage nations. As I said initially, if that were the case, if low wages were the primary ingredient or the primary incentive, then nations like Haiti or Bangladesh or other very, very low-wage nations, much lower wages than Mexico, would be the manufacturing capitals of the world.

No, quite the contrary. The manufacturing and production capitals of the world with regard to high wages, which is the direction we want to move in, are there because of the productivity of the people and the infrastructure surrounding those individuals—everything from highways and communication systems, stable governments, to the skills of employees, the ability of subcontractors to form a unit with regard to the ability of indeed the entire industrial sector to perform at a high level of productivity.

And finally, closeness to customers, which is becoming an increasing factor with regard to much manufacturing; in fact, many activities.

I have toured a number of plants in the United States over the past 6 months which could have gone to Mexico, where managers told me that there was a debate in the company about whether to go to Mexico or not. One stands out in my mind, a plant in Atlanta, an AT&T plant, a unionized plant.

The plant decided, the managers decided, not to put it in Mexico because they felt productivity was higher, infrastructure was better, skills were better, and it was closer to customers. So they preferred to be here in the United States.

Senator HATCH. Let me endorse those comments and let me just tell you a story. Utah has a well-known firm called Iomega. It makes the Burnoli box. This is a large computer data storage device that is used by the Pentagon or used in the Defense Department and elsewhere.

Now Iomega moved a substantial part of its production of that device to Mexico in the early 1980's. The original magnet really was the wages of Mexican workers. They were good workers, too, but they simply lacked the right combination of skills.

So Iomega started crunching the numbers and the company calculated that the cost of upgrading their Mexican workers would incur time and costs so steep that they could afford to move the work back to Utah and still keep a decent profit margin.

Now that is not an uncommon story, but I relay that only to remind you of a point I made in my statement that I asked me placed in the record.

The CHAIRMAN. Which it will be.

[The prepared statement of Senator Hatch appears in the appendix.]

Senator HATCH. That worker productivity is a function of skills and training as well as other work place technology, such as computer software and sophisticated manufacturing techniques and equipment.

This is what we have in the United States that will continue to give us a margin of difference with Mexico. I think it is a worry that is really unfounded. I personally have appreciated listening to your remarks here today. They have been very enlightening and very interesting to me. Thank you. I will end with that.

The CHAIRMAN. Thank you, Senator Hatch.

Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

Mr. Secretary, I would like to go back to the worker training program. It does seem to me that there is a way to pay for that, at least insofar as those workers who are hurt by these trade agreements.

We got as part of the 1988 Omnibus trade legislation authorizing the GATT negotiations a provision requiring the administration to negotiate a very small border fee—less than 1 percent, three-twentieth of 1 percent as a matter of fact.

It does seem to me that there is great logic in that kind of approach. What we are really saying is that a lot of people are going to benefit by a liberal trade agreement through lower costs on consumer products and so forth. But there are some who are going to be hurt. So why is it not a question of fairness, of equity, to say those that are benefiting will pay a very small fee to help retrain and help those who are hurt.

Now I know the purest say, well, you cannot do that because we are trying to lower tariffs and to put a border fee is contradictory. That is tunnel vision in my judgment. What I am saying is that we already have on the books instructions to the executive branch in the GATT negotiations that they should negotiate such a fee.

Now the last administration purportedly tried, but I do not think they tried very hard. I would like to see this administration do something either in the GATT Round or if necessary with the Mexicans. To me, it offers real relief. Let me point out there is some precedent. Hong Kong, for example, has a small fee to promote exports. So it does seem to me that this is a possible solution.

Secretary REICH. Now, Senator, let me very strongly agree with the first part of your proposition. That is that any economic change which on net improves society ought to at the very least hold harmless anyone who may be inconvenienced or may be hurt by that change.

Those who benefit, who are in the majority, ought to make sure that anyone who is not helped is at least as good off, if not better off, than they were before. I think that is a terribly important principle underlying everything here.

But the question is how to do that and where to get the money from. I and the administration would not be supportive of a border tax simply because that moves us back toward a trade impediment. There may be other ways of financing it. There may be some problems——

Senator ROTH. Let me ask, because this is the heart of my proposal, I strongly disagree with you. I mean, if you have a $10 tariff and you reduce that just to a few cents, for that few cents to help retrain, to me this is purest philosophy that you cannot do it.

It is an exception that I think makes possible the kind of adjustment that is necessary. If we had some other available, but if you go to payroll tax or something, you are going to hurt jobs in general. This is a way of paying for something that is essential to this program if we are going to get it adopted.

It seems to me, I urge you to reexamine and look at it. We did pass this legislation, pushing, I think, my colleague, the Chairman, as a matter of fact was a co-sponsor with me of this legislation.

The CHAIRMAN. Yes, sir.

Secretary REICH. I certainly will look at it and I do not in any way want to give anyone the impression, Senator, ever of being a purest with regard to this other matters. But I think it is worth looking at. But I did want to just give you that initial feedback with regard to how the administration now views that.

Senator ROTH. That is the traditional myopic approach in my judgment.

Let me ask you another question. Senator Levin, when he was before this committee last week, alleged that NAFTA's job-creating claims are based on a major distortion of facts. He went on to emphasize that the government presents only half a picture by focusing on U.S. exports to Mexico and not showing the import statistics.

How do you respond to Senator Levin's claim that almost 90 percent of the job gains disappear when you calculate jobs based on net trade figures?

Secretary REICH. No. The job gains are net job gains. Those are the job gains that are being anticipated on the basis of simply looking at the jobs that have been created through exports.

Senator ROTH. Two hundred thousand, in other words. Does this figure take into consideration the impact of imports to this country?

Secretary REICH. Absolutely. It is looking at net job gains, net of any job shifts that may have to occur.

Senator ROTH. Well, I see my time is almost up and I know you are anxious to move ahead.

The CHAIRMAN. Thank you, Senator Roth. We are. Our last questioner will take up some of the themes of Senator Levin.

Senator Riegle?

Senator RIEGLE. Thank you very much. First the good news, Mr. Chairman, and Mr. Secretary, and that is we have just reported out of the Banking Committee a community development bill, sought by the administration. We also reported out a small loan securitization bill. We reported it out by the vote of 18 to 1, a bipartisan vote.

I can report there is no gridlock in the Senate Banking, Housing and Urban Affairs Committee. This is a very important initiative of the administration. I think it is an illustration that the administration and Congress, both parties, can come together and get some important work done.

The CHAIRMAN. That is great.

Senator RIEGLE. So that is the good news.

Let me now turn to NAFTA, which I think is the bad news. I want to make two or three points. I apologize for having been upstairs and not here. But I have gone through your statement carefully as we were working on that legislation I just cited.

But it is the kinds of jobs we are losing to Mexico, the kinds of jobs we have lost before, up until today, and the kinds of jobs that my economic analysis and common sense tells me we will lose in the future.

If you take the Maquiladora area, the reason that American firms—half of our exports by the way to Mexico go to the Maquiladora area. They go down there and they make a U-turn. They go down there and work is done and 99 percent of that production comes back into the United States.

Now, why would American firms go to the trouble of sending all of that work down there and getting it done and then bring it back into the United States? I mean there is really obviously only one reason—the economics drive that, the quality of the work drives that.

What we are doing here is not just eliminating the Maquiladora area, which has been said, you are turning all of Mexico, all of Mexico, into a Maquiladora area. That is really what is happening here.

And the economic hydraulics of this, because the wage standards are so much lower, about one-seventh of ours here—the minimum wage there, for example, is 60 cents an hour versus our $4.35—and when you take in addition the absence of meaningful work place standards, which cost money, meaningful environmental standards, which cost money, and things of that sort, the economic differentials are so vast that already hundreds of thousands of U.S. jobs have in effect moved down to the Maquiladora area where work is done and then sent back into the United States.

Now the proposal is to do that for the whole country. We are destroying a larger and larger part of the middle class of this country. I think there is a very serious social implication to what has been going on and what would be greatly accelerated by this package.

I want to give you an illustration back in Flint, MI, which is a place we are both familiar with. You lived part of your life out there I know. I went back to the old neighborhood, Mr. Chairman, where I grew up, which is the industrial side of Flint. We are an auto making town. Almost everybody on my block in small row houses worked down at the Buick plant.

When I was back there about 3 weeks ago I was struck that on the intersection of Franklin and Dakota Avenue, five houses from where I spent my first 20 years, there is now an all-night laundromat. It was not there when I was a kid growing up.

As I got around and talked to people in the neighborhood, the reason it is there is that more and more people in that neighborhood cannot afford to own their own washing machines. So they are now taking their laundry in plastic baskets down to this all-night laundromat, dropping their quarters in, to get their laundry done.

It is just one measure of the backwards slide of so many people, particularly in our manufacturing base, but more and more out of the middle class, back down the economic ladder. We know that has been hidden in part because two people in a family have gone to work in recent years to earn as much as one person could earn several years ago in terms of real income.

We do not have any answer for how we are going to reemploy people who lose their jobs. And to be very specific about it, I just visited a radiator hose plant in Wall Lake, MI. The women, principally a work force of women, were earning $6.25 an hour. That plant has since been closed and moved to Mexico. The work has been moved to Mexico.

When I went to visit the plant, Mr. Chairman, I came near the end of the shift change and got word out that I hoped some of the women would come out and speak to me at the end of the shift change. They were warned that if they did come out and talk to a U.S. Senator on the sidewalk in front of the building that they would not be allowed to finish their last two weeks in that plant. I mean, that is just part of sort of the ruthlessness that is being carried out in terms of people who are losing their jobs.

Now those are $6.25 jobs. There are much more valuable jobs in the computer and technology industry from California that moved wholesale from California to Mexico. It is one of the reasons that Senator Boxer, from a State quite different than Michigan, has come out against the NAFTA as have many other people in that State.

The problem is the administration, nor anybody else who are sort of fostering this idea, has no notion of how we replace the lost jobs. I mean, there is partly an effort to minimize the notion of lost jobs, but that is a manifest reality. We do not know what to retrain people for today, quite frankly.

As brilliant as you are, and I can see that you are, and I am delighted that you are in the job, as a practical matter, you do not have an answer, nor does this country have an answer for those women, most of them single mothers, who just lost their jobs at that radiator hose plant in Wall Lake, MI.

So all of this is lofty and very cosmic. But I have people and they are just one of countless examples I can cite who need jobs now. There are no jobs for them and, quite frankly, there is no plan to provide jobs for them. That is just wrong. I do not think we should add to the problem until we answer that problem.

The CHAIRMAN. Thank you, Senator Riegle.

Mr. Secretary, we thank you so much indeed for your thoughtful testimony; and we congratulate you on the good sense of bringing Dr. Katz alongside you with lots of tables and answers. We have got some questions which we have left with you and we hope to hear back from you.

[The questions appear in the appendix.]

Senator BAUCUS. Mr. Chairman, if I might just as one very, very brief question.

The CHAIRMAN. Yes, of course.

Senator BAUCUS. This will take less than 30 seconds.

Mr. Secretary, you explained that Section 301 will still be available if NAFTA passes. Would you mind some clarifying language somewhere in the implementing language or something to make that quite clear, because there are some who are saying that with the passage of NAFTA, Section 301 would no longer apply.

Secretary REICH. No, Section 301 will be there. I will definitely talk with Ambassador Kantor this afternoon and seek to ensure that there is clarifying language there.

If you will permit me, Mr. Chairman, 30 seconds.

The CHAIRMAN. Sure.

Secretary REICH. Let me just say and say both to Senator Riegle and others, I did spend part of my young life in Flint, MI. I share, and a few people care as deeply as I do about what has happened to Flint and what has happened to the American manufacturing base.

But in Michigan alone, bear in mind, that exports to Mexico from 1987 to 1992 grew over $1.4 billion; and most of those gains were in manufacturing. Had we not had those exports to Mexico, that erosion might have been worse.

What I worry about is that we mix up a tremendous problem, the problem of the erosion of the American manufacturing base and what is happening to non-supervisory workers. We must do something about it. There are efforts that the administration is taking, and you are taking, and we are working together. But we mix that up. We confuse that with the issue of NAFTA and it is a different issue.

Senator RIEGLE. Well, you have put a fact on the table and I want to nail it down. When you cite that export figure to Mexico, I want to know what part of that export figure to Mexico went to the Maquiladoras and, in fact, came back to the United States.

Secretary REICH. That is a net figure with regard to export growth.

The CHAIRMAN. Let us get from you, sir, the whole spreadsheet as you might say.

Secretary REICH. I will give you that.

The CHAIRMAN. And while you are at it, if Senator Riegle wishes, I would like to know what the National Labor Relations Act has to say about a management that was prepared to fire employees who dare to talk to a U.S. Senator.

Senator BRADLEY. I would, too.

The CHAIRMAN. There was a time when Secretaries of Labor did not allow such things like that, and I am sure you are one such.

Secretary REICH. That is disturbing to me.

The CHAIRMAN. Yes, let us find that out. All right?

Senator RIEGLE. I might say that some of the women there did come out and speak to me and others were afraid to and just drove on by.

The CHAIRMAN. I mean, let us just find out about that.

Secretary REICH. Absolutely.

[The information requested was not received at press time.]

The CHAIRMAN. Thank you very much, Mr. Secretary. Thank you, Dr. Katz. We will take one seventh-inning stretch here. It is the seventh inning.

Senator RIEGLE. Mr. Chairman, if you would indulge me just one personal comment as we are waiting for the shift change here at the witness table.

When I made the observation about the all-night laundromat that is now down on the corner of Franklin and Dakota Avenue I should have added the fact that back 30 or 40 years ago when I was growing up there almost everybody in the neighborhood had their own washing machines. They were the old Maytag type with the rollers on the top to drain the clothes.

But the point is, it is a measure of the backwards slide in living standard from what I knew as a young man growing up in that neighborhood when we were not, it seemed, earning a lot then, that workers by in large were better off than they are even today.

The CHAIRMAN. Well, we do know that average earnings ceased to grow in 1973 and we have no name for a generation in which there is no increase in real incomes.

Now, we are about to have the honor of hearing from Hon. Thomas R. Donahue, who is Secretary-Treasurer of the AFL–CIO and chairman of the Labor Policy Advisory Committee for Trade.

Good morning, Mr. Secretary. You have been very patient. I saw you come in at 10:00 and you have sat back and listened with great care. We welcome you.

I would like to ask our guests to come back to order. The television is out in the corridor.

Mr. Secretary, you are accompanied by?

Mr. DONAHUE. I am accompanied by Mark Anderson, who is the Director of the AFL–CIO's Task Force on Trade, Assistant Director of our Economic Affairs Department.

The CHAIRMAN. Mr. Anderson, we welcome you, sir.

Mr. ANDERSON. Thank you, Mr. Chairman.

The CHAIRMAN. Would you proceed exactly as you like. We have your statement. You can read it directly or you can put it in the record. We will put it in the record and you can proceed exactly as you want.

Sir, I want you to understand, take as much time as you want. If we cannot finish today, we will ask you back. All right? It was the nature of this subject, that it is a long negotiation. You have been through negotiations before.

STATEMENT OF THOMAS R. DONAHUE, SECRETARY-TREASURER, AFL–CIO, AND CHAIRMAN, LABOR POLICY ADVISORY COMMITTEE FOR TRADE, WASHINGTON, DC, ACCOMPANIED BY MARK A. ANDERSON, DIRECTOR, TASK FORCE ON TRADE, AFL–CIO

Mr. DONAHUE. I have a statement and I would like to just highlight some parts of it for you if I may.

The CHAIRMAN. Fine.

Mr. DONAHUE. We obviously appreciate the opportunity to appear and talk about this trade agreement and supplemental accords.

The AFL–CIO believes that the interest of American companies is great. We believe that the consequences of NAFTA are not minuscule. We believe that the adoption of this agreement would seriously harm the U.S. economy and result in the loss of hundreds of thousands of American jobs and a decline in the nation's standard of living.

The President contended last week that the debate was essentially a debate about whether or not we embrace change. Others say that supporters of NAFTA look to the future while the opponents look to the past. Nothing is further from the truth.

The question is not whether we change or whether we stagnate as a nation, it is whether or not government is capable of shaping change in ways which benefit the majority of the citizens of the country, not just the powerful elites. That is, after all, what democratic government is about and why it was brought forth.

Trade and investment relationships have to be structured so that the benefits of economic activity are spread as widely as possible. Workers long ago learned that when market forces are left to their own devices they cannot be expected to bring sustained equitable economic growth and social progress to a nation.

Free markets literally need to be civilized. They need to be channeled in democratically agreed upon directions if the economy is going to serve the people. Many, many of the major achievements of this Nation, the establishment of our minimum wage, the abolition of child labor, the development of work place health and safety laws, collective bargaining itself, all of our environmental protections, all of them were intended to temper and to restrain some of the most brutal affects of the free market.

What is that stake? In the current discussions it is not more or less trade with Mexico, but the nature of the quality and the results of that trade. As it is written and as it is agreed upon, NAFTA contains no protections against a further deindustrialization of the American economy.

There are no protections against the transfer of our technological edge. There are no counter incentives to the massive transfers of investment and production which will flow and there are no protections for Mexican workers to help ensure that they, and not just their employers, might reap some benefits from that increased investment.

There is no doubt that U.S.-based multi-national corporations are going to benefit from NAFTA. The United States as a whole, however, stands to lose an enormous amount. Ultimately NAFTA supporters have one very simple argument.

All things being equal, increased international commerce results in greater general prosperity. I will not disagree with that. But the fact of the matter is that there is very little that is now equal between the United States and Mexico and, indeed, between the United States and all the other nations—Japan and the EC most particularly—which manage trade to their advantage.

You know the statistics. In 1992 the average hourly compensation of American manufacturing workers, $16.17; Mexican manufacturing workers, $2.35; in the Maquiladoras, according to the Bureau of Labor Statistics, $1.64 an hour.

As a result, the Mexican consumer market is depressingly small. Mexico is a country with one-third of our population, 5 percent of our buying power. It has a 40-percent poverty rate, a 20-percent unemployment rate, and a GDP one-twentieth the size of ours. Many Mexican workers, particularly Maquiladora workers, live in cardboard shanties without electricity or running water. They drink and bathe in unfiltered streams filled with toxic run-off from nearby plants. That is the fact.

The average Mexican family simply cannot afford to purchase the products that they make, much less contribute to American prosperity by buying goods that are made in the United States.

The existing trade patterns prove that reality. While it is perfectly true that we now have a small trade surplus with Mexico—and I would note that that surplus in the first 6 months of 1993 is half of the number which Secretary Reich quoted for 1992—but we have a small trade surplus even in that first 6 months.

But there is every reason to believe that that is only temporary. Capital goods and intermediate goods accounted for more than 80 percent of all U.S. exports to Mexico in 1992. The vast majority of the finished products from those plants flow back to the United States and Canada where for now workers still earn enough to be consumers.

U.S. exports to Mexico of consumer and agricultural products accounted for only 19 percent of our trade in 1992. When the Mexican peso is devalued, a move that is rumored for next year, but is certainly likely within the next 2 years, Mexican workers are going to be even poorer relative to the U.S. dollar and far less capable of buying products manufactured in the United States.

We should be clear about this. Mexico is not a huge market for U.S. exports; and NAFTA will not make it so. It is a low-wage production location for U.S. factories.

The current NAFTA was not designed to improve that picture but to expand on it. It is not about trade. It is about investment. It is not about our buying Krona Beer and their buying Ben & Jerry's ice cream. It is about investment in Mexico.

President Clinton acknowledged this is really an effort to increase and protect U.S. investment in Mexico and the agreement meets those goals with flying colors. NAFTA guarantees the repatriation across borders of all profits, dividends and capital gains, guarantees the convertibility of currency at market rates, guards against the expropriation of property, guarantees prompt compensation.

It is fascinating to compare the enforcement of those protections for business with the enforcements of the rights of working people or more precisely the lack of such enforcement. NAFTA spells out in exquisite detail the remedies, including trade sanctions, that can be taken by inventors or invention owners whose trademarks, patents or copyrights are exploited by people who might refuse to pay a fair price.

The men and women who make those products, however, are offered no guarantees of their right to a fair wage or decent working conditions in Mexico.

The labor supplemental agreement, rather than advancing labor rights and standards, actually represents a weakening of existing remedies available under U.S. law. The accord contains no agreement on or definition of minimal worker rights and standards. Remedies can only be sought for persistently poor enforcement of a narrow group of standards, not for singular gross violations of labor rights—persistently poor enforcement of a very narrow group of standards.

No remedies are offered for infringements against workers' rights to free association, to collective bargaining, or to withholding labor through strikes. The consultation and the dispute resolution procedures of that supplemental agreement, even for the few things that are covered, is so protracted and tortuous as to make the timely resolution of disputes almost inconceivable.

For covered practices, it appears that the enforcement process could take more than 1,225 days after there is an essential agreement that there is a problem. The enforcement process could take 1,225 days. Mexico's chief trade negotiator assured the Mexican Congress that the process was, and I quote, "so exceedingly long" that it is "very improbable that the stage of sanctions could be reached."

We agree wholeheartedly with the Mexican negotiator, Mr. Chairman. It is very unlikely, very improbable that sanctions could ever be reached.

Even with its many inadequacies the supplemental agreement on the environment is far stronger than the labor agreement and we keep asking, why is the protection of workers somehow less important than the protection of business owners or the protection of the environment.

Beyond the inadequacies of the labor supplemental agreement, the NAFTA contains dozens of specific provisions which would also be extremely harmful to domestic employment. It contains weak rules of origins, inadequate safeguard procedures, inequitable rules for investment, inequitable market access. Those are, I submit, just a few of the provisions that would be detrimental to U.S. workers within the basic agreement.

Our written testimony, Mr. Chairman, describes the situation in auto, apparel, land transport, and on the question of the temporary entry for business persons.

Let us take a look at the investment possibilities in Mexico. Last year the Wall Street Journal published a survey of 455 senior executives of manufacturing companies—55 percent of executives from companies with at least $1 billion a year in sales said that if this agreement goes through it is very likely or somewhat likely that they would shift some production to Mexico within the next few years; 24 percent said it was likely that they would use the threat of job loss to Mexico to bargain down the wages and benefits of U.S. employees.

And according to a report of the conference board, during the next 2 years business spending will grow almost three times faster in Mexico than in the United States. I think we ought to take those business leaders at their word. I think we ought to take them seriously.

But the fact is, we ignore them and we ignore the whole history of the Maquiladoras and the current history of non-enforcement of law in Mexico. The AFL–CIO, Mr. Chairman, will enthusiastically support any new framework for trade and investment that truly protects the jobs of people who need them, that strengthens the democratic rights of workers throughout North America, that raises living standards and promotes economic development in the poor areas of the continent, and that ensures that we will all have a healthy and safe environment.

But when NAFTA and the side accords are measured by those criteria, they are a complete failure. Just for a moment, contrast our Nation's performance with that of the European community when it was asked to integrate economically with the less developed Greece, Spain and Portugal.

Both the EC and the U.S. claimed to want to foster democratization. The EC demanded and achieved it; we never tried. Both said they want to have higher living standards for their poorer partners. The EC protected workers' rights to form independent unions and to negotiate for higher wages and then backed that up with developmental funds. We never tried.

Both were said to want to prevent social dumping, not allowing competition based on low wages. The EC tried to raise up the poor and provided disincentives against job flight. We never tried.

Change is the inevitable result of those failures to confront the political and social effects of economic globalization, but it is change that is regressive. The real story is not that NAFTA has the support of five former Presidents, rather it is the fact that NAFTA is understood and opposed by the majority of American citizens—auto workers in Illinois, truck drivers in California, maritime workers on the east coast.

NAFTA moves the trade debate for the first time from the economists and former Presidents down to the level of the people. It is a debate to be carried out in terms that they can understand and they are going to decide the outcome of it.

NAFTA does for trade, I submit, what televising the Vietnam conflict did for war, it enables people to understand it and the people understand the consequences of the NAFTA agreement. They know that no promise of worker retraining, no breakthroughs in technology, no government-business partnership schemes are going to bring back the jobs and the investment dollars that NAFTA is going to take from the United States under the conditions which would be enshrined by the passage of NAFTA.

We submit the people have a right to expect more from the people who represent their interests. We think this country can do better and it must.

Thank you, Mr. Chairman. I would be happy to try to address any questions.

The CHAIRMAN. Thank you, Mr. Secretary. That was powerful, direct, concise. At the opening of today's hearing I mentioned that in the opening of our first hearing I said this was the first major trade agreement in the last half century on which our Nation is divided. We are not in agreement here.

But more importantly, it is the first time in a half century that the American labor movement has stated its opposition to a specific agreement, not to the general proposition. For a half century, whether the business community was for or was with the government or not, the AFL–CIO has been. It has insisted that opening trade would raise standards of living elsewhere in the world, and at home as well, and on the issue of democratization, the issue of the defense of the free world in a grim confrontation that went on for two generations, the AFL–CIO has been there.

I have been involved in some of those negotiations. The one group in this Nation and one organization in this capital that a President could depend on, it has been the AFL–CIO. And when you speak as you do, you have to be heard. I thought it was a very powerful statement.

You said, contrast our Nation's performance with that of the European Community, when asked to integrate economically with less developed Greece, Spain and Portugal, both the EC (the European Community) and the U.S. claimed to want democratization. The EC demanded and achieved it. We never tried.

I do not know that that is a dispositive fact, but I think it is an accurate statement.

I will leave my statements at that. So we can go through our sequence. Senator Baucus?

Senator BAUCUS. Thank you very much, Mr. Chairman.

Mr. Donahue, I think a core essential question here is whether U.S. workers are better off or worse off with NAFTA. Secretary Reich has one view; you have another. I just would like you to expand upon that basic point because, frankly, as I see it, if you compare what the U.S. workers' condition would be with NAFTA, without NAFTA, based on how I see it, it seems that the evidence concludes that the U.S. workers are better off with NAFTA compared without NAFTA. I say that because of several reasons.

Number one, trade barriers would be reduced, eliminated. Mexican trade barriers are 2½ times the U.S. trade barriers. So that would be a benefit for the United States to export products to Mexico.

Second, there is a labor side agreement. It is not perfect, but it is better than the status quo. Also, Mexico has agreed to tie wage increases to productivity increases. You know, otherwise without NAFTA Mexico would not agree to do that.

Add to that the environmental side agreement, which because it enforces—tends to enforce; it is not perfect—it tends to enforce Mexico to abide by its environmental laws, that that will have the effect of leveling, you know, the competitive playing field between the United States and Mexico insofar as with hired environmental enforcement in Mexico, Mexican business will be less likely able to produce products at a lower cost because it is not complying with Mexican environmental standards.

Also, let us remember that Section 301 is going to be available with or without NAFTA. GSP is available with or without NAFTA. So we add it all together, it just seems to me that the net effect is going to be more incentives to ship more products to Mexico. There is going to be greater incentive with NAFTA for wages to go up higher, more quickly in Mexico than they otherwise might without NAFTA and there are fewer incentives for companies, as Secretary Reich said, to go above or around, to avoid the higher trade barriers because they are going to be eliminated.

Also, without NAFTA it seems to me there is a higher likelihood the Japanese investment is going to exceed in Mexico. It is very possible there could be a Japanese-Mexican Free Trade Agreement. It gives me the shudders because Japan would use Mexico then as a platform to ship product to the United States.

I am just curious why you think, I will say it again, why given all that which I have just outlined why wouldn't U.S. workers be better off with NAFTA compared with no NAFTA.

Mr. DONAHUE. I am trying to say, Senator, that I think to support NAFTA you have to be willing to suspend any belief you have in an analysis of past history. I heard Secretary Reich say low wages will not draw companies to Mexico. There are 2,200 plants on that border, providing over 520,000 jobs to Mexican workers. They did not go there for high wages. They went for low wages.

The Mexicans you say have agreed to tie wages to GDP. I do not mean to caval about this, but that is not in the agreement and the Mexicans specifically refuse to make it part of the agreement. It is in a gratuitous remark, which Salinas made in a speech the day after the agreements were signed or the day they were signed, saying he believed that Mexico would do that.

That was specifically refused as a part of the agreement. It was specifically one of the things we argued most strongly for. That if the wealth of the nation rises, if the GDP rises, there ought to be an understanding that would be shared with the people in spite of the best efforts of American employers in Mexico not to share that wealth. We did not get that in the agreement. It is not in the agreement.

The environmental agreements, sure, you can say that a focus on the environmental agreements or on the environmental conditions is better than having no focus on them.

We have had a bilateral commission on the Rio Grande for 30 years, 40 years. I think longer than that. In fact, I think it goes back to the 1920's. It does nothing. It has accomplished nothing. You know what the Rio Grande looks like. You know about disease and sickness along the border on both sides.

We argued that the environment ought to be cleaned up and the polluter ought to pay. The Mexicans did not cause the pollution along the border. Now they do have to be responsible for the bad air in Mexico City. But the pollution along the border was caused by American companies that went down there and polluted because nobody policed them.

Now what the agreement says is, I ought to pay for that. Well, I do not want to pay for that. I do not think the American taxpayer ought to pay to clean up the border. I think GM ought to do it. I think the companies which did not apply U.S. standards ought to do it.

If I may just conclude on this, Mr. Chairman.

The CHAIRMAN. Please, there is plenty of time.

Mr. DONAHUE. This 301 question is a very serious question that is being danced all around. The Secretary said 301 would continue to be available. You said you believed that and you believed the GSP is still available. I don't know. But I am told that the 301 authority remains, unless the implementing legislation could change that. But for the moment, it remains.

But its only authority. To exercise that 301 authority you will have to rip up the North American Free Trade Agreement. Once it is signed and in place, it provides for the resolution of disputes. It provides the process for handling surge complaints or any other kind of complaint.

If you were to assert a 301 labor case and say, now, we are going to use this authority, the Mexicans will tell you you have destroyed the NAFTA. You have ripped up that part of the agreement and the same is true, I am afraid, with GSP.

Senator BAUCUS. I hear that. But that would not apply and is an argument you are making with respect to other labor areas that are not covered by the labor side agreement. Because you know better than I, the labor side agreement only covers your perspective.

Mr. DONAHUE. Right.

Senator BAUCUS. Worker rights, labor conditions, health and safety conditions.

Mr. DONAHUE. Right.

Senator BAUCUS. And minimum wage. But there are many areas that are not covered and I would think that 301 would be available for the areas that are not covered. Because there is not a dispute settlement panel for the areas not covered.

Mr. DONAHUE. Mr. Anderson is telling me no and I would defer to him for a moment.

The CHAIRMAN. Mr. Anderson?

Mr. ANDERSON. Yes, thank you, Mr. Chairman.

I only say, Senator, that the remedies that are available to this country under Section 301 for violations of internationally recognized worker rights include such things as putting quotas on goods from a violating country, increasing tariffs from a violating country.

It is my judgment, and I believe it is the case, that the NAFTA agreement governs those remedies. So while 301 will remain, there will be no remedies behind it once NAFTA is in place.

Senator BAUCUS. Well, that obviously is a question that is going to have to be cleared up.

On the other point you made, I very respectfully listened to you, but as I heard them, essentially your points were that avoided the basic question, are conditions going to be better after NAFTA or before NAFTA.

You mentioned the lower wages in Mexico. That is true, they are low. But as I look at the data and the evidence, it seems fairly compelling to me that with NAFTA wage rates are more likely to rise more quickly than without NAFTA.

Mr. DONAHUE. With additional U.S. investment in Mexico.

Senator BAUCUS. That is another question. The question is, what is the net consequence of that additional U.S. investment in Mexico. On balance, that is murky because to some degree one can argue it is lost U.S. jobs. On the other hand, one can argue it is increased U.S. jobs because as Senator Bradley pointed out, whenever there is a foreign company invests in another country, a very large percentage of the purchases, equipment and capital goods and so forth, comes from the so-called parent country. So that creates a lot of jobs.

So if there is some investment in Mexico, that is going to create new jobs both places, some in Mexico but some in the United States as American companies manufacture more components and more capital goods to be shipped to that country. That is the evidence generally as to what happens.

Mr. DONAHUE. To beg the question of investment substitution, is the dollar invested in the United States worth more to the United States than a dollar invested in Mexico for which we get 70 cents back? I think the former is the case.

The CHAIRMAN. May I say, I think the question of 301 has to be addressed. It may not be—let us see if we cannot, indeed, resolve it. We will ask for a memorandum of law from our own staff. I think we should ask it from Mr. Kantor as well.

Thank you, Senator Baucus.

Senator Riegle?

Senator RIEGLE. Thank you very much, Mr. Chairman. Let me just say how much I appreciate the presentation of the AFL–CIO today. This issue is so clear cut that it just astonishes me that we are even engaged in this debate as we are.

I have looked at the labor side agreement, the so-called labor side agreement, and if there was ever a bandaid that does not deal with the terrible problem, that is it. You have touched here on that today.

I think the record should also show, and the discussion that you had with Chairman Moynihan, when you take what the EC did with respect to Spain and Portugal and Greece, to insist on democratization and lifting of standards in those countries if they wanted to come in to a trading arrangement with the European countries, there was another country that was turned down. That was the country of Turkey.

Turkey really is much more comparable to Mexico because the differentials there were so much greater as they are between ourselves and Mexico. The thought was that because the differentials were so vast with Turkey that they really could not be accommodated on an equitable footing in the EC. So they were not allowed to join.

I think we face comparable problems here with Mexico. I know of no instance—and in your quote from President Clinton, I think he may have made that quote prior to being President; I am not sure what the date was—but there is no example that I am aware of of an advanced nation going into a "free trade agreement with an underdeveloped country," a Third World economy, where the differentials are as vast as these.

This is a brand new endeavor and there is no historic record comparable to the differentials here, particularly when you look at the fact that you have this enormous common geographic border.

Now, having said all that, I want Mexico to do well and I want the Mexican people to do well, but not at the expense of our people. So when you attempt to go into a free trade agreement with a bordering country, where you have the prospect of massive trade back and forth and a common trucking system and so forth, essentially an open border, it is a profoundly different question.

We are a very fragile and vulnerable economy right now. Our manufacturing base is struggling in many areas. And it is a prime candidate to be relocated to Mexico; and much of it already has been relocated to Mexico. I mean, literally billions and billions of dollars of investment to build modern factories in the Maquiladora area have been done by multi-national corporations.

Ford, Chrysler, and GM alone have over 70 plants down there. They did not make those investments casually. They made them very purposefully.

One of the problems we are going to run into here has not been highlighted yet, Mr. Chairman. Any public company, if this goes into effect, any public company that has competitors in its industry that go down to Mexico to take advantage of the lower operating costs, the lower wages rates, the lower environmental standards and so forth, and therefore widen out their operating margins and improve their profitability, in fact drive up the price of their shares in the stock market, any other company in that industry that fails to do that will come under enormous direct pressure from the pension management people of this country who will say, you know, you must do what your competitors are doing. We are not going to tolerate having the price of stock being lower because you have not taken advantage of the lower costs in Mexico.

He will either move to Mexico to widen out those margins or we will replace you. They are quite blunt about saying this to CEOs. We have had a lot of them washed out in this country just in the last 2 or 3 years. So this is not an uncommon practice.

So then you have the situation where corporate managers, who may even want to stay in the United States, are going to find that they have no choice. Of course, then they will be able to say, well, do not blame me. This is not something I want to do; this is something I am compelled to do.

I might also say this, and I do not know that time will fully permit me to develop this today, but I have talked to the Chairman about this before, but as I put this in context with the 27 years of work that I have done here as a member of Congress now, through 7 administrations, I see a kind of elitism in these arguments that is really stunning to me.

I say that because people who are not in the line of fire of losing their jobs are quite willing to feed somebody else into that meat grinder. It has in its own way some very eery parallels to Vietnam if I may say so. I am not saying they are the same. Please do not misunderstand me on this.

But we had a situation there where again sort of the establishment elite by in large thought the Vietnam War was a great idea. They just did not want to go and sort of deal with it themselves directly. I am talking about people in corporate leadership positions, high positions of government, what-have-you, at that time.

And if you go down and read the names on the wall, they are not, for the most part, well-known names. They are not prominent names. They do not by in large represent the power elite of this country at that time. It is sort of anonymous rank and file people.

I find the same thing to be true now in terms of the jobs that have already gone to Mexico. They are anonymous rank and file middle-class families and people who have lost their jobs. Many of them come back into the labor force, cannot find replacement work or if they do they have surrendered a $25,000 a year job and maybe end up finding a job at $15,000. So there is an enormous backward slide.

But I find that the people who were willing to basically surrender the other guy's job are out of the line of fire themselves. I will finish very quickly here, Mr. Chairman.

The CHAIRMAN. Please, take your time.

Senator RIEGLE. I asked a very prominent news personality in Michigan this morning. I was doing an interview with a man I respect very much. We were talking about these differentials. I asked him how he would feel if he were faced with direct job competition by somebody who could come in and would do his job for one-seventh of what he is now being paid.

And there was a long pause and he was frank to admit that that was not a very attractive idea for him. So for people who are out of the line of fire, it is a wonderful cosmic abstraction. They say, let us just go ahead and do this. Let us just be tough about it.

But they really mean is, let somebody else be tough about it, whether it is the women that worked in the radiator hose plant that I spoke about or any number of countless other people. You know, if we allow any more destruction of the middle-class job base of this country, we are going to have a social condition on our hands that literally we cannot manage.

I mean, you know, all economic theory and all the academics and all the elite that think this is wonderful and who are not in the line of fire, I think are doing this country a great harm; and you have, in effect, said that today. I would like you, if you would, just to briefly comment on what I have said.

Mr. DONAHUE. I must say, Senator, with all due respect to five former Presidents of the United States, the Washington Post ad the other day asked what do these ex-Presidents have in common, and with due respect to them, I would note none of them is going to lose their job because of NAFTA.

I think that is the parallel of your comment about the editorialists, the corporate elite making those decisions.

I would just like to add one point on the question of the movement of jobs to Mexico and the argumentation now that not much will move, some will move, very little will move. We have the example in the Maquiladora of what happens. We have watched that for 25 years now; and we have seen them grow inexorably, and the line from 1984 to 1992 went up just like that, from about 200,000 to 525,000.

American companies have apparently a great interest in investing in Mexico and in those Maquiladoras. Those whole Maquiladoras need to be understood. But what needs to be understood is that we are not talking about low-wage, low-skilled jobs. Those are manufacturing plants. Those are good assembly jobs. These are Detroit jobs.

Senator RIEGLE. They are middle-class jobs.

Mr. DONAHUE. These are the jobs that built American families and they are now in Mexico. And the Mexican work force is sufficiently trained and sufficiently skilled, wages are low enough, and a vast pool of people quite available enough to take all kinds of time to train those people in skills sufficient to a fair level, semi-skilled, if you will, assembly job.

That is what we are losing. We are losing good manufacturing jobs. We are not losing drudge work. We are not losing, you know, minimum wage work. We are losing good manufacturing jobs and that is what is going to Mexico.

Can I just add one point on the Maquiladora to your comments? This debate keeps shifting back and forth. We need NAFTA because it protects 700,000 U.S. jobs. It will create 200,000 more. In the next voice we are told, this really has a very small effect. Do not pay any attention to it, it is not going to bother anybody.

On the Maquiladoras we are told, well, the Maquiladoras are bad. Now people tell me they are bad. I have said that for a lot of years. They are bad and NAFTA will solve that problem. Well, NAFTA will not solve that problem at all. What NAFTA will do, those Maquiladoras have to ship all of their product back to the United States. The NAFTA will make that rule go away, will make it possible to open the back door of those plants and pump their product into Mexico as well as the United States.

The Delco radio plant, Deltronico in Matamoros which makes all the radios for General Motors cars, is going to beef up its production and try to sell its radios in Mexico. So those plants are now going to be able to go both ways, not just back to the United States.

That goes against everything we are being told about how once we get this agreement, then we will ship more product into Mexico. Why would we manufacture product here and ship it into Mexico when we can make it in Mexico much cheaper? They will keep on manufacturing in Mexico.

So doing away with the Maquiladoras, I do not know how to argue against that, but it is a false idea that somehow this agreement is going to change something in the Maquiladoras. It is going to enlarge the Maquiladoras. It is going to make all of Mexico open to the creation of the Maquiladoras, not just the border areas or what we thought were the border areas.

The CHAIRMAN. Thank you, Mr. Secretary.

Thank you, Senator Riegle.

Senator Bradley?

Senator BRADLEY. Thank you very much, Mr. Chairman.

Mr. Donahue, it is great to see you. I have tremendous respect for you and I have tremendous respect for the way you have worked this issue, the knowledge that you possess about it, and I think that knowledge was demonstrated in great detail in your statement and in other comments that you have made related to this subject.

We have a real problem in this country and there is no question about that. I do not know what the exact number is, but we have lost, what, about 2.6 million manufacturing jobs in just the last decade. And it is a very serious problem.

I think that the issue comes down to defining where we think the greatest continuing threat is to those jobs. Does it come from technology? I mean, are we at a point now where the farm was in the late 19th Century or are we just going to have fewer people working in manufacturing?

Does it come from international competition? And if so, what are the sources of that competition? I think that those are two pretty important questions to deal with. I think that our difference of view on this, or at least the difference between the proponents and the opponents, seems to be on whether a North American Free Trade Agreement would make America in the North American context more competitive with Japan and with Europe than if we did not have the North American Free Trade Agreement.

I think that there is evidence that it would make us more competitive and that we would create more jobs in America because of it. Opponents argue only that it would create job loss.

Assume that the opponents are wrong. Assume that, you know, NAFTA is defeated. And although proponents who say, look, we could create jobs with NAFTA do not have the chance to demonstrate that, then we are left with how are we then going to compete with Europe and with Japan if you believe international competition is the threat. Or, what are we going to do about the advancement of technology if you believe technology is the threat.

It seems to me that that's the point of disagreement between the proponents and the opponents. So if you could maybe share your opinion about that. Then I would just like a couple of other specific questions.

Mr. DONAHUE. Sure. Senator, I thank you for your generous remarks in opening. You have, as usual, raised the question to a higher level than the details of the agreement. I happen to think that is where the debate ought to take place.

Just a side comment. When you say that perhaps manufacturing is where the farm was, and now we know where the farm is or where agri-business is, I submit that other nations made other decisions and have a very healthy farm economy and millions of very happy farmers. You can find them in the streets in Paris demonstrating almost any day the GATT is discussed.

But those nations made a decision that they were going to maintain a farm industry, that it was good for the nation, that it was desirable as a value to have small farms and farm families and we are telling them now they have to change that. But that debate is still to play out.

I submit that is the higher level of consideration on the manufacturing side. The NAFTA folks and the proponents of competitiveness—and I do want to get to that point—are saying that, well, perhaps we just have to shed our manufacturing jobs. Well, perhaps we do not. Other nations have not. The Japanese have not. The EC has not.

They have protected their industries. They have managed trade to their advantage and we go on pretending that free trade exists in the world and you know very well it does not, except in the mind of this Nation.

When you raised the question about it is evident that a NAFTA agreement would make us more competitive with Japan, you raised a debate to the level it ought to be held on. What we are talking about is putting together an alliance where we can utilize and exploit the low-wage workers of Mexico to produce product cheaper and ship it abroad somewhere else, hopefully.

I mean, that is what it is about. that is what NAFTA is about. It will make us more competitive is a phrase I cannot deal with because I do not know who the "us" is. If the us is not us, it is not us 250 million people. The us is the corporation. The us is the corporation who will produce a cheaper product, sell it higher, and perhaps enlarge its profits and benefit its stockholders.

That may or may not enrich the nation. I submit destroying our manufacturing industry, continuing to allow that destruction, shipping jobs offshore, encouraging the concept that the way for us to compete in the world is to have a low-wage partner is the wrong way to go.

Senator BRADLEY. Could I ask you, Mr. Chairman, a specific point because you raised this in your testimony. The issue of tying wages to productivity.

Mr. DONAHUE. Yes.

Senator BRADLEY. I think that that idea might have—I do not know who suggested it, but I think that that is something that you would be supportive of.

If Mexico passed a law to that effect, do you think that would improve the situation a little bit, if they passed a law tying wages to productivity?

Mr. DONAHUE. I do not really know. I mean, I would have to take a look and see. Did it improve the situation that they passed the law on intellectual property? Yes, for the beneficiaries of the intellectual property protections.

Senator BRADLEY. Right.

Mr. DONAHUE. The desire that we expressed was that that be expressed as a goal of the Mexican government in these negotiations and that the benefits of the NAFTA would be passed on to Mexican workers. That is at least one rough measure that was suggested I think originally by Congressman Gephart.

Did you want to say something on that?

Mr. ANDERSON. Yes. I only wanted to say, Senator, that certainly we would welcome any statement on the part of the Mexican Government to do that. But I think the fundamental economic concern that we are faced with is not productivity relative to Mexican minimum wage, which I think is the discussion now going on in Mexico City, but the fact that in the export sector in Mexico, particularly the U.S.-owned firms, the workers today are not being paid relative to their productivity.

That is where the wages need to be increased. I do not believe that is what the Mexican Government is going to address.

Senator BRADLEY. You also made a point about the proponents who are trying to have it both ways. In a sense they are saying, well, this will create 200.000 jobs; and then at the same time, this will have very little affect on the overall size of our economy or impact on our economy.

If you figure we have 18 million manufacturing jobs and 112 million jobs generally in the country, non-farm jobs, could it not be both? Could it not be that it will create 200,000 jobs and, indeed, those 200,000 jobs is the percent of 18 million or 112 million is not very great?

Mr. DONAHUE. You gave me a shifting formula there. Job loss, if it is one job, is terribly significant to the person who loses that job.

Senator BRADLEY. Absolutely.

Mr. DONAHUE. So if we are talking about something that is going to create 200,000 jobs, then we are talking about something. One framework for the debate, I only say I want to have it one way or the other. You cannot say this has a minuscule affect. This has a very small affect, and then I have to watch the television ads that say it will protect 700,000 jobs and create 200,000 more.

The truth is, that you know and I know that this is not a small deal. That is part of an administration sell now. Well, this will not change things very much. Do not get too excited about NAFTA.

This room is filled and the line out in the hall will tell you how much corporate interest there is in the NAFTA and how much the people believe this is a big deal and this is a major change in the United States' future, and this is a question of public policy that affects millions and millions of people.

Senator BRADLEY. Just one final point. That is, as the Chairman has said any number of times, organized labor signed on to the proposition of open trade and part of that was also going to be kind of a series of programs that would cushion the impact of that international trade. And, of course, we have had the open international trade, by in large, but we have not had to any significant degree the programs that would cushion the impact of that.

I think that is what the 2.6 million people who have lost their jobs in the last decade are feeling and expressing and their families as well.

At a minimum, do you not believe that what we need in this country—and Secretary Reich I think got it part right when he said, you need to have essentially life time education. But in addition to that you do need to have what I call kind of a security platform that includes guaranteed health care, guaranteed pension security, in a true sense, not underfunded pensions that are just pushed off into the future and left for the taxpayers, and a real life time education.

You need that platform and then you need to put it in the context of a growing economy. If I have had this discussion I have had it 100 times, you know, retrain to what. If the economy is not growing and generating jobs, then it does not make a lot of difference if you are retrained. So you need basic management of the economy first because that keeps things moving. We have not had that in 12 years. Look at the debt.

Then you do need to have this security platform there. So that if a worker loses his or her job, they know they are not going to lose their health insurance; they know they are not going to lose the pension security that they have achieved after 15 years of work or 20 years of work; and they know they have some option if they are able to take advantage of that option to move out and to learn some new skill.

It seems to me that that is a minimum that we should have. I know that is not an answer to this issue. But it is something that I hope we are going to address fully in the course of the next year or two on all of those areas.

I can assure you that an issue of pensions, the Chairman has given maneuver here on and to explore that possibility. I would hope that we could work together on that.

Mr. DONAHUE. We would be anxious to explore that with you, Senator. If I may just comment, the security platform was part of the basic deal that was made in the 1960's and the 1970's, that we know there will be dislocations from trade, but we will give you trade adjustment assistance in rather good format and far superior to unemployment insurance.

You heard the Secretary of Labor say today that we should take care of unemployed workers but not any differently—their treatment should not be differentiated on the basis of the cause of their unemployment.

The Secretary of Labor believes, and this administration is going to propose, a dislocated worker program that will not differentiate between workers who are displaced by governmental actions, e.g., the NAFTA, or trade dislocations or workers who are laid off because the drycleaner closed, because the boss died or whatever.

His program is apparently going to propose that everybody be treated equally. Well, that is just wrong. I have to say that is just wrong. If the nation chooses a policy of sacrificing some of our jobs in order to advance some larger interest, or some perceived larger interest, of trade, then we are entitled to be protected in very special ways, not just in the ordinary ways.

That is not apparently what is going to be. We were told at the outset of the NAFTA debate incidentally that that would never happen. That, of course, anybody who was displaced would be taken care of, very special treatment. We are not getting special treatment.

The CHAIRMAN. That seems to be a cogent point. You are not asking for special treatment. You are saying that if the U.S. Government, as a policy decision, closes down this sector or shrinks this sector of the economy in favor of some other, well, the people who lost out have a claim on the larger economy. That was the understanding in the 1960's and the 1970's, Mr. Donahue. You were right; and it has been lost.

Senator Conrad?

Senator CONRAD. Thank you, Mr. Chairman.

Mr. Donahue, we have been repeatedly told that Mexico has an average tariff rate of 10 percent; that we have an average tariff rate of 4 percent; and, therefore, not to worry everything is going to work out fine. What is wrong with that argument?

Mr. DONAHUE. Averages do not mean much to the people who might not fit exactly that average for one thing. The size of those tariffs may average 10 and 4, but they vary rather broadly as you well know, on both sides of it.

What is wrong with that analysis further is that this agreement is not about tariffs. We have never made a big deal about tariffs. The agreement is about the encouragement of U.S. investment in Mexico. That is what the agreement is about. That is why the Mexicans want it. That is why our American companies want it. It is about providing a platform for low-wage production. It is about a whole series of things, but it is not about a 10 percent and a 4-percent tariff rate.

The President of the United States has the authority, quite without a North American Free Trade Agreement, to reduce tariffs. He can do that by executive order, by executive agreement. I do not even think he has to consult the Senate to do that. He could not negotiate a tariff agreement. But to offer the protections that the American companies want to go to Mexico to protect their investments there more fully, he had to negotiate a NAFTA.

Senator CONRAD. Well, I thank you for that answer. I tell you, I think you see this debate in many ways rapidly focusing on this question of tariffs and over and over we are told 10 percent, 4 percent—10 percent is the average Mexican level; 4 percent is the average U.S. level. So we are told that we are going to benefit by a removal of those tariff limits. The fact is that that is not an unimportant part of this agreement, but there are many other elements to it that really overshadow the tariff part. Is that not correct?

Mr. DONAHUE. Sure. The purchasing power on each side of those tariffs is a terribly important factor. If the tariffs going into Mexico are down to zero, but nobody has any money to buy our product, it is not going to help.

Senator CONRAD. And, in fact, if they devalue the peso they would completely wipe out the effect of any tariff change.

Mr. DONAHUE. Yes.

Senator CONRAD. In fact, it could totally swamp any tariff change.

Mr. DONAHUE. Sure. And we should note that this is the first free trade agreement that I know of that attempt to bring together a market of nations where nobody dealt with those questions. Nobody has dealt with currency valuations or what each of these three nations can do on currencies.

Nobody has dealt with the question of what each of these three nations does on external tariffs. If the Mexicans cut their tariffs in preferential style for someone else, that is their business. We have made them our broker for the rest of the hemisphere, I believe.

Senator CONRAD. Just to draw this out a little further, if, in fact, they did away with the 10-percent tariff, but then had a 20-percent currency devaluation, in effect they would have twice the burden put on the United States as currently exists; is that not correct?

Mr. DONAHUE. And twice the advantage in their products coming in.

Senator CONRAD. Exactly, twice the advantage coming in here. Is there anything in this agreement to prevent them from pursuing such a policy?

Mr. DONAHUE. Nothing that I am aware of at all. The question of the currency valuation were not even talked about.

Senator CONRAD. There is absolutely no protection on currency movements? I think that is an important point to make.

Let me ask you a broader question, if I could. The United States has an economy that is roughly seven times as large as the Mexican economy with respect to per capita GDP; on wages, estimates are all over the block, but I understand basically the average wage in Mexico with benefits is maybe $2 and here it is maybe $16; something like a seven or eight to one differential. Is that your understanding?

Mr. DONAHUE. Probably greater than that. The wage differential is probably nine to one.

Senator CONRAD. Nine to one would be your estimate?

Mr. DONAHUE. Yes.

Senator CONRAD. Let me ask this. In terms of what we have seen in other countries, just as a basic proposition, is it wise for two countries with that kind of differential to in effect merge their economies?

Mr. DONAHUE. On that point, Senator, I am always amazed at the 300 economists who say this is a wonderful agreement. Those are people who apparently study sales in a market, but nobody every taught them about work force economics or labor force economics. Because what we are doing is taking two entirely different work forces at about a 9 to 1 or 10 to 1 differential in wages, and we are in effect merging them.

And any economist will tell you that if you do that, then somewhere or other you have to find equilibrium between those two rates. The 10 comes down. The one may come up, but the 10 comes down.

Nobody in this debate, nowhere, has anybody discussed labor force implications of this agreement. I just do not understand why that is not talked about.

Senator CONRAD. Would not one conclude——

Mr. DONAHUE. We are adding 50 million people to the work force. We are always told that we are adding 90 million or 86 million consumers to this huge conglomerate of nations we are putting together. Nobody ever talks about the fact we are adding 50 million people who are 40 percent unemployed to our work force, which is 7 percent unemployed or 12 percent unemployed, depending on which figure you use.

Senator CONRAD. It seems to me, I mean I have my own parochial concerns, you understand, with wheat and barley and sugar and dry edible beans and potatoes. Those are impacts directly in my State that I am very concerned about.

But I have this larger question as well—the whole question of what happens to the country as a whole. It seems to me that logic would tell you that you put pressure in this country on low-wage, blue collar, even medium-wage jobs when you merge your economy with another country that has that kind of tremendous wage differential. Is that a conclusion that has merit? I mean, what is your view of that?

Mr. DONAHUE. You are asking the questions that get beyond again the numbers of this debate. In the real world of labor negotiations, for example, collective bargaining negotiations, there is always present that bargaining table. You want more money? Well, I do not know if we can pay more money. I mean, we may have to go to Mexico. If you keep pushing here, we may have to go to Mexico. We may have to go to Asia. We may have to go some place.

That is the real world. People make decisions as to how they can be advantaged. And what we are doing for that company negotiator is giving him one more ability to say to the union negotiator, we have to keep wages down; or to say to the employees directly, we have to keep wages down here. You know, we have to meet the Mexican competition now because this is all just one big common market.

Senator CONRAD. So the almost inevitable result, it would seem to me, in jobs that are labor intensive, jobs and maybe even some skilled jobs given the Maquiladora experience, would be downward pressure on wages in this country?

Mr. DONAHUE. Oh, absolutely, Senator. Absolutely. It is already present.

Senator CONRAD. To what degree? I mean, would this be a significant downward pressure in wages in this country or it would be relatively insignificant? I mean, what is your judgment on the magnitude of it?

Mr. DONAHUE. Smith Corona says they are going to close their plant in upstate New York.

The CHAIRMAN. Cortland.

Mr. DONAHUE. And they are going to move to Mexico and they are going to save $5 million in wages. It is going to cost them $5 million to move. They will pay that off in the first year. They will also write off the $5 million cost of moving against their taxes, so the tax code in effect will be subsidizing their move.

What does anybody think happens the next time the union goes in to negotiate with Smith Corona on another plant or on another piece of the corporation? They are looking at a negotiator who says, you guys remember what we did in Cortland. Of course, it has a downward pressure on wages and that will be universal.

That will affect not only the organized corporations in the collective bargaining arena; it will affect the non-union companies as well, because basic theory of the agreement is, we want to make American companies more competitive with Japan. We need, therefore, a low-wage platform or we need to lower wages. That is not what we need to do.

What we need to do is manage our trade in such a way that we will be as strong a country as Japan is in the manufacturing area. We are not doing that.

The CHAIRMAN. Now, may I just say that I cannot think of a more emphatic way to conclude our hearing. That is your view. You have said it very well, Mr. Secretary. I see that our party caucuses have commenced.

Mr. Riegle, would you like to make one last comment?

Senator RIEGLE. Mr. Chairman, I will not trespass on your graciousness throughout the day. If I could just make one point, if I may.

Because every once in a while something gets said that, you know, may be the most important things that is said and it comes at the end; and I think you just said it. That is that this agreement in effect adds 50 million people to the U.S. work force and it relates directly to the kinds of questions that Senator Conrad is asking.

No one I have heard said that before. I heard one illustration put slightly differently. That was, if you took the State of California, say, for the next 5 years and you had in California the lower wage rates that we now see in Mexico and lower environmental standards, what would happen to the jobs in America?

Well, a vast number would quickly migrate to California. Well, why doesn't exactly the same economic hydraulics apply in terms of moving not here to California in that hypothetical, but in fact moving to Mexico? That is really what the agreement is all about.

The CHAIRMAN. And as usual in our hearings, a Senator has the last word.

Mr. DONAHUE. Thank you very much.

[The prepared statement of Mr. Donahue appears in the appendix.]

The CHAIRMAN. We thank you, Mr. Secretary.

Thank you, Mr. Anderson.

Mr. ANDERSON. Thank you, Senator.

The CHAIRMAN. I believe this is your first time before the committee. We welcome you, sir.

We now stand in adjournment.

[Whereupon, at 12:57 p.m., the hearing was adjourned.]

NAFTA AND RELATED SIDE AGREEMENTS (BUSINESS, AGRICULTURE, AND ENVIRONMENTAL ISSUES)

TUESDAY, SEPTEMBER 28, 1993

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:00 a.m., in room SD–406, Dirksen Senate Office Building, Hon. Daniel Patrick Moynihan (chairman of the committee) presiding.

Also present: Senators Baucus, Bradley, Rockefeller, Daschle, Breaux, Conrad, Packwood, Chafee, Grassley, and Hatch.

[The press release announcing the hearing follows:]

[Press Release No. H–34, September 24, 1993]

FINANCE COMMITTEE ANNOUNCES THIRD NAFTA HEARING; TO HEAR FROM BUSINESS, AGRICULTURE, AND ENVIRONMENTAL WITNESSES

WASHINGTON, DC—Senator Daniel Patrick Moynihan (D–NY), Chairman of the Senate Committee on Finance, announced today that the Committee has scheduled its third in a series of hearings concerning the North American Free Trade Agreement (NAFTA).

The hearing will begin at *10:00 a.m. on Tuesday, September 28, 1993,* in room SD–215 of the Dirksen Senate Office Building.

The hearing will include testimony from representatives of business, agriculture, and environmental organizations, both those supportive of the Agreement and those opposed to it.

"As the Finance Committee continues its review of the NAFTA, the perspectives of experts from the business, agriculture, and environmental communities will be invaluable," Senator Moynihan said. "One feature of the NAFTA debate is the extent to which these communities are divided in their views on the Agreement's likely effects.

"By hearing from witnesses with contrasting perspectives, Members of the Finance Committee will be better able to reach their own conclusions about the probable consequences of the NAFTA for American firms and their employees, farmers, and the environment," Senator Moynihan said.

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK, CHAIRMAN, COMMITTEE ON FINANCE

Senator MOYNIHAN. A very good morning to our witnesses and our guests. This is the most recent in a regular series of hearings we are holding in the Committee on Finance on the proposed North American Free Trade Agreement.

This morning we are going to hear from representatives from the business, environmental and agricultural communities; some will be for the proposed agreement, others will have a different view.

We are interested in all of them. And, with those brief remarks, I turn to our former Chairman and ask if he would like to speak.

OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S. SENATOR FROM OREGON

Senator PACKWOOD. Well, Mr. Chairman, I do not think anybody has ever said that the NAFTA agreement means that every single employer in the country is going to increase employment. There are some winners and some losers.

I think what everyone has said is, on net balance the United States gains employment, the U.S. exports more, and is better off. If we try to have an agreement that affects no one—I mean no one—adversely, then we will have no agreement.

So, what we have to do with those businesses that can make a genuine case that they are not able to compete—and I do not mean that in a critical sense—because of this agreement, what can we do to help in the transition period? But it should not be the reason that we will have no agreement at all.

The CHAIRMAN. I think that, clearly, that was the reason that Trade Adjustment Assistance was developed. When you enter a trade agreement it is with the understanding that there will be changes in each economy and that will mean some dislocation on both sides. And, there you are.

Senator Baucus.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you very much, Mr. Chairman. I understand we will have two panels today on the North American Free Trade Agreement, discussing implications for America's business, America's agriculture, and America's environment.

As we listen to this testimony, and, in a large sense as we approach the debate in NAFTA, I think we must ask ourselves fundamentally, bottom line, whether NAFTA improves the status quo. I believe that in all three of these issues, in business, environment and agriculture, it does.

Take business first. NAFTA opens an export market of 88 million people to American manufactured goods and services. High-tech companies, auto workers, steel, capital goods, and more will all benefit. The consensus of all reputable studies is that NAFTA will create a net gain of at least 95,000 new jobs in the United States.

It will strengthen the trends which raised American exports to Mexico from $12.5 billion in 1987 to $40.5 billion last year, and converted a $1 billion trade deficit with Mexico to a $5.4 billion trade surplus, and it would permanently raise American gross domestic product.

Agriculture. NAFTA, to quote Ross Perot, will allow us to export "an unlimited quantity" of feed grain to Mexico. It will remove tariffs of 15 percent on cattle, 20 percent on fresh beef, 25 percent on frozen beef. It will allow us to solve our problem with the Canadian wheat subsidy. Overall, it will mean an increase of $2–$2.5 billion in American agricultural products.

Environment. The environmental side agreement is a landmark in the history of American trade agreements. It sets a permanent precedent for making environmental protection a top priority in trade negotiations. It allows us to use trade sanctions to retaliate when governments do not enforce their environmental laws.

The NAFTA is good environmental policy, and it looks even better when you think about the alternative: sticking with the status quo, letting the Maquiladora program thrive, watching as 24 million gallons of industrial sludge and 55 million gallons of sewage pour out of Juarez to the Rio Grande every day. That is why the vast majority of American environmentalists support the NAFTA.

As to those who do not, I think that Raymond Mikesell and C. Ford Runge of Sierra Club's Economic Committee sum it up: "By allying themselves with groups whose agenda has little to do with environmental protection and much to do with protectionism, they have lost their bearings in the environmental community."

And, finally, look at NAFTA in the larger sense. Today, our tariff on Mexican goods averages 4 percent. Thirty percent of all Mexican goods enter the United States duty free under the Generalized System of Preferences, or the Maquiladora program. Mexico's tariff on our goods averages 10 percent. So, by eliminating both we will turn today's one-way free trade agreement into a two-way free trade agreement.

We looked at last year's text. Many of us demanded a better agreement, and we got it. President Clinton has given us a NAFTA that will be good for America. Success on this issue is crucial for him at home and abroad. Now is the time for us to stand with our President for growth, for environmental protection, for agriculture, and for jobs. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Baucus.

Senator Grassley, good morning, sir.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Senator GRASSLEY. Thank you, Mr. Chairman. To some extent, I was delighted to read in the Washington Post yesterday that Douglas Frazier, former president of UAW, endorsed the North American Free Trade Agreement. He was speaking at Georgetown University Law School.

He said that opposition to the agreement, which is being led by labor and some environmental groups, is based "upon emotion, admittedly, and fear and insecurity. I happen to believe that NAFTA will uplift our country, uplift the Mexicans and make them better customers for American products."

I think it is somewhat ironic that five former Presidents of the United States, and now a former president of the UAW support NAFTA. Yet, as Mr. Frazier noted, we're still plagued by innuendo, emotion, fear and security over an agreement all have said are in the best interests of the United States.

I wonder if we are not on the path of deja vu trade. In the early 1800's, a group of English workers led by Ned Ludd led a charge to destroy labor-saving machinery, fearing that new machinery would wipe them out.

Economists knew that machinery allowed workers to produce more, thereby raising standards of living, but Ned Ludd's followers seized on the emotional, appealing claim that labor-saving devices destroyed jobs.

The arguments against NAFTA mirror the Luddites' arguments against technology. Fortunately, Ned Ludd and his followers did not succeed in protecting workers from machines. If they had, we would still be working in sweat shops.

The question that we are faced with during this debate is whether or not passing NAFTA will come at the expense of better jobs for workers in other industries and improve living standards for future generations.

I have heard from farmers, I have heard from business people, I have even heard from some environmentalists in my home State about the potential benefits NAFTA will have in Iowa.

Conversely, though, I have also heard from many individuals in labor groups, people employed in the appliance industry, for instance, in the Midwest. I want to mention that their concerns are real, since the International Trade Commission has reported a loss of 5–15 percent in employment and production in that industry is NAFTA is implemented as originally crafted.

Now, I am working with the administration to attempt to correct the inequities and also have legislation prepared should they not. People who are members of Perot's United We Stand Organization I have also heard from, and just everyday citizens who have violently opposed NAFTA, all who have expressed a deep fear of what the future holds for American jobs.

But, Mr. Chairman, this is one issue that the legislative body, like the American people, are sharply divided on, like so many issues before us today, from NAFTA to health care reform, to reinventing government. I hope that we are able to put partisan politics aside and put the interests of the American people and the United States in the forefront. I hope that we won't act upon the fear, the emotion that Mr. Frazier talked about, or special interest groups that are putting 30 second sound bites on TV.

But, if we act on fact and reality, I think it will be adopted because we are obviously looking at something that is going to have a long-term impact on not only our country, but upon the world. As we have seen the freeing up of trade in at least the last 45 years paved the way for a better standard of living for the generation that just passed, including our own.

I yield the floor.

The CHAIRMAN. I thank you, Senator Grassley. But I would take the liberty of reminding us all that the Secretary of Labor testified in our last hearing, among other things, making a point that low-wage countries are not necessarily the most productive by any mean.

But industrial wages in Germany—what was West Germany—are 60 percent higher than in the United States. We have seen no change or increase in real incomes in the United States in 20 years, which is what is troubling a great many people, as you would share the same concern.

Senator Hatch.

OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM UTAH

Senator HATCH. Thank you, Mr. Chairman. I want to join in welcoming our panelists today. I think I will be very interesting in the important issues that they have decided to discuss with us.

And, increasingly, Mr. Chairman, opposition to NAFTA is becoming heavily protectionist-oriented. Many commodity groups, environmentalists, and especially labor fear substantial injuries from the NAFTA agreement.

Labor Secretary Rice, in his appearance before this committee on September 21st, hinted at this, but he pointed out that the underlying U.S. trade laws that prevent unreasonable, unfair, unjustifiable, or other discriminatory practices against the United States would not be changed. That is a very important point.

Let me take Secretary Rice's one important step further. The residual protections in the U.S. trade statutes against such practices offer a form of double indemnity insurance policy to U.S. trade interests.

And I say this, because if you do not like the anti-surge or dispute resolution, or other remediation procedures in the NAFTA agreement, or if they do not apply, you never forfeit your recourse to such U.S. statutory mechanisms in Section 301 of the Trade Act of 1974.

In this point I would disagree substantially with my friend Tom Donahue of the AFL–CIO, and very likely some of our panelists who feel that agricultural, environmental, or labor interests are not protected by Section 301. On the contrary, Section 301 continues to apply to Mexico in precisely the same way it applied to Canada after passage of the Canadian Free Trade Agreement.

In fact, we have had several significant Section 301 actions against Canada, notably the beer and magnesium cases, the latter involving Mag Corp of America, a large mining company in my own home State of Utah.

My friend, Dick Gephart, also misconstrued the general authority of Section 301 in his well-publicized September 21st anti-NAFTA speech. The House Majority Leader said that Mexican duty-free benefits would no longer be subject to violations of internationally recognized worker rights. There simply is no basis whatsoever for reaching that conclusion through any accepted standard of analysis in reviewing the NAFTA text.

I believe that the Majority Leader intended to say that there has never been a Section 301 investigation regarding internationally recognized worker rights. The supplemental labor agreement addresses the issue of child labor, for example. The agreement then puts in place an organizational framework which includes a dispute settlement panel.

If the panel were to establish a persistent pattern of failure to effectively enforce child labor provisions, fines, even trade sanctions could be imposed. But here is where the "double indemnity" feature kicks in. Even if the NAFTA dispute resolution mechanism rejects child labor law findings of violations, U.S. trade interests that see themselves injured by the practice can still file a Section 301 investigation, as can the U.S. Trade Representative.

Section 301's legislative history, which will always be part of the court's statutory interpretation materials, makes it quite clear that Section 301 is intended by Congress to provide the authority and procedures for the President to enforce U.S. rights under international trade agreements and to respond to certain unfair foreign practices.

This authority was actually strengthened under amendments to Section 301 in the Trade Agreements Act of 1979, which, among other features, improved enforcement of U.S. statutory rights and responses to actions by foreign countries inconsistent with, or otherwise denying U.S. benefits under trade agreements.

Finally, the Omnibus Trade and Competitiveness Act of 1988, a landmark trade legislation of our legislative generation, mandated the USTR to obtain the "elimination of the act, policy or practice" which I have just discussed about.

Mr. Chairman, like you, I await the several legal memoranda that are now under preparation on the applicability of Section 301 to NAFTA. However, I am confident that NAFTA alone cannot defeat the antidumping, price undercutting, or other unfair or unreasonable practices that have been fully aired in the long NAFTA negotiations process.

So, in closing, let me just thank the Chair for allowing my remarks at this time.

The CHAIRMAN. I would like to thank Senator Hatch for his statement, and say our counsel, Ms. Miller, agrees that section 301 obviously is still in place. There is a question of what happens if we should, in fact, retaliate as 301 provides, and we are looking forward to receiving a legal memorandum on that subject from the Trade Representative, Ambassador Kantor.

Thank you, Senator Hatch.

Senator Breaux.

OPENING STATEMENT OF HON. JOHN BREAUX, A U.S. SENATOR FROM LOUISIANA

Senator BREAUX. Thank you, Mr. Chairman. I am for NAFTA if we fix the sugar provision. I look forward to hearing our witnesses.

The CHAIRMAN. Nothing like simplicity and clarity.

Senator BREAUX. Right.

The CHAIRMAN. Well, then, our witnesses, and off we go. If they would come forward. We are going to have Mr. Jerry Junkins, who is chairman, president and chief executive officer of Texas Instruments, and chairman of the International Trade and Investment Task Force of the Business Roundtable. Mr. Junkins will be accompanied by Mr. Albert Black, Jr., who is president and chief executive officer of On-Target Supplies and Logistics, of Dallas.

Our panel will continue with Mr. Randy Cruise, who is president of the National Corn Growers Association from Pleasanton, NE; and Mr. Fred Krupp, who is executive director of the Environmental Defense Fund, located in New York.

Good morning to you all. We will follow our pattern of hearing witnesses as they randomly appear on our list. So, Mr. Junkins, you are first. Good morning, sir. Are those your charts?

Mr. JUNKINS. Those are not my charts. I think they are Mr. Krupp's charts.

Mr. Krupp. I will claim responsibility for those, Mr. Chairman.

The CHAIRMAN. Well, Senator Packwood asked me if I could read them from here. I said, I have no trouble reading them at all.

Senator GRASSLEY. We will see them on C-SPAN tonight.

Senator PACKWOOD. The Chairman assured me, however, when I get my health security card I will be able to see them all right. [Laughter.]

Mr. Krupp. We have provided 8½ x 11 copies of them, also.

The CHAIRMAN. Oh. We have them up here. Good. Thank you. Well, Mr. Junkins, good morning, sir.

STATEMENT OF JERRY R. JUNKINS, CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, TEXAS INSTRUMENTS, AND CHAIRMAN, INTERNATIONAL TRADE AND INVESTMENT TASK FORCE, THE BUSINESS ROUNDTABLE, DALLAS, TX

Mr. JUNKINS. Thank you, Mr. Chairman, and members of the committee. I am appearing today on behalf of USA*NAFTA, which is a coalition of some 2,700 large and small companies and associations that support the approval and implementation of NAFTA, and I am also testifying, as you mentioned, on behalf of the Business Roundtable, and I appreciate the opportunity.

One thing I have discovered since becoming actively involved in the NAFTA debate is that you can be against this agreement in a whole lot fewer words than you can be for it. Following true to form, we have submitted a detailed statement for the record that lays out the facts and figures.

The CHAIRMAN. Which we will place in the record, and happy to do so.

Mr. JUNKINS. Thank you.

[The prepared statement of Mr. Junkins appears in the appendix.]

Mr. JUNKINS. But, judging from the recent anti-NAFTA newspaper advertisements, I am afraid the facts and figures are not the real issue any longer. It appears that the issue really is fear; fear of the changes that have taken place in our economy over the past 20 years, fear of the intensifying global competition that our companies and our workers must face every day, and, frankly, fear of the future.

If you listen closely to the anti-NAFTA lobby's message, you hear that we cannot compete for the jobs of tomorrow in a world economy; we must close ourselves off and preserve the jobs that we have now.

I believe what we should be asking ourselves is, very simply, whether the United States will compete in the economic growth of this hemisphere. If we do not, I believe we create a vacuum that our world competitors will rush to fill, and they will do so in our own back yard. And the result, undoubtedly, would be the loss of American jobs and a weaker United States.

Now, the electronics industry—and particularly the semiconductor part of that industry of which we are a part—has operated in one of the most competitive environments in the world for more than 30 years. We have lived through massive dumping in the mid-1980's, and we have struggled with uncompetitive costs of capital for a decade because of poor fiscal policy, and, I might say, with the help of this committee, have fought against tariff and non-tariff trade barriers that have kept markets closed to us.

Throughout all this, I believe one of the most important things we have learned is that if you cannot compete everywhere in the world, ultimately, you will not be able to compete anywhere. There are no permanent sanctuaries to avoid world competition.

In evaluating NAFTA, I really asked myself three questions: will it help Texas Instruments, will it help our people, and will it help the country? And, to all three, I come down on the side of an emphatic yes. First, NAFTA will help our company by eliminating many of the barriers that make it hard for us and other U.S. companies to do business in Mexico.

Now, we estimate that NAFTA will result in additional Texas Instruments revenues of roughly half a billion dollars a decade from now. These additional revenues would support about 2,000 more jobs, largely in the United States.

But, importantly, every dollar's worth of revenues we produce in the world, generates 15–20 cents of new capital, and 10–15 cents of new research and development investments, with roughly half of those investments remaining here in the United States.

So, if you take those numbers and assume the $500 million in additional revenues is accurate, that says we would spend $75–$100 million in new capital, and $50–$75 million on new research and development every year. And these are funds that, clearly, would enhance our competitive position.

Conversely, if we preclude ourselves from effective participation in these markets, our competitors are going to spend those same funds on research and development and capital equipment, increasing their competitiveness and generating jobs who knows where.

Second, as TI gains from NAFTA, so will our people through increased job opportunities. NAFTA will result in a net increase in jobs in the United States. And, despite all the wrangling over this issue, almost every study reports net job gains.

In addition, the gradual elimination of tariffs through NAFTA will reduce the incentive for U.S. companies to move to Mexico for that reason. And, again, we are an example of that.

We have a small facility, some 600 people, in Central Mexico, Aguascalientes, a part of which assembles and tests integrated circuits. And the primary reason that this operation was set up was because, in the past, our customers have demanded local content, as required by Mexican law.

Let me, further, try to debunk the myth that once NAFTA is in place companies such as ours will rush mindlessly to move our U.S.-based operations to Mexico. And, again, let me use our own company as an example.

Although we have got facilities in 30 countries around the world and have made investments all over the world over the past 30–40 years, we just recently announced a decision to invest $700 million to $1 billion for a new semiconductor facility in Dallas.

I can assure you that wages are just one of many, many factors that business considers in locating a manufacturing operation. The existence of NAFTA would not have changed our decision to locate this facility in the United States.

Third, NAFTA will be good for our country. It is an opportunity to place the country at the center of a $7 trillion market, 370 million people. Therefore, we and our neighbors gain an advantage over the competitors outside North America.

So, in summary, as you try to cut through all the rhetoric, and the facts, and the figures, I believe what you are deciding is how effectively the United States will participate in the economic growth of Canada, Mexico, and the rest of Central and South America, and how much of our advantage you want to cede to our world competitors. NAFTA clearly is an opportunity to keep the United States in the game, and we cannot afford to pass it up.

Thank you.

The CHAIRMAN. Senator Packwood, could I ask you, you have been on this committee almost a quarter of a century. Have you ever had a witness come before us who has said, I am going to talk, first of all, about what is good for my firm, then I will get around to democracy later and things like that? It is very refreshing.

Senator PACKWOOD. As a matter of fact, I tell almost all lobbyists who come in in that regard, lobbying is an honorable profession. I would appreciate if they would tell me how it affects their client or their business.

It is really up to us to weigh the merits of democracy and the merits pro and con. But, you are right. Most people come in and equate what is good for General Motors is good for the country and attempt to sell it on that basis.

The CHAIRMAN. Thank you very much, sir. We will get back to questions.

Mr. Black, good morning. You are from—forgive me.

Mr. BLACK. Dallas, TX.

The CHAIRMAN. You are from Dallas, also, are you not?

Mr. BLACK. I sure am.

The CHAIRMAN. Both firms. Good morning, sir.

STATEMENT OF ALBERT C. BLACK, JR., PRESIDENT AND CHIEF EXECUTIVE OFFICER, ON-TARGET SUPPLIES AND LOGISTICS, INC., DALLAS, TX

Mr. BLACK. Good morning, Chairman Moynihan, and Senators. This is my first day in Washington, DC. It is a beautiful day. And, hopefully, my testimony can shed some light on how people in small business and minority business feel about NAFTA.

Let me give you a brief background on my company, On-Target Supplies and Logistics. We have been in business for 11 years, struggling most of those years. Recently, we have had some opportunities with large corporations. We have grown, on average over the last 4 years, 400 percent. We now employ 20 people in South Dallas, TX, which is an area that the Census has gauged average income at $9,000. We are paying people $23,000.

We are re-educating people in South Dallas. We are becoming smarter, and we feel like it is time for us to become part of a regional, and then a world economy. NAFTA gives us an opportunity to do that. It reduces the barriers that are so difficult for small, minority business to get over. It gives us an opportunity to really feel as if we can supply our corporate clients, no matter where they are, in the United States, Mexico, or Canada.

The gradual elimination of these trade barriers is very important. Recently, we had a corporate client that wanted paper sent to Singapore. It took us 2 weeks to figure that out. The NAFTA agreement will give us assistance with experiences like this.

Small and minority business is important to us. If we are going to produce an economy of African American business people, Hispanic business people, and other ethnic minorities, we have got to look at this thing in a global perspective. It is time for us to be a part of the big picture and make a contribution so that the United States positions itself to be a world leader.

On-Target, my company, will seek a lot of opportunities from NAFTA. We intend to export a tremendous amount of services to Mexico, as well as Canada, services from the distribution of copy and computer paper, to services such as inventory control systems and some warehousing for Mexican manufacturers that want to warehouse here in the United States of America.

Hopefully, all of these things will make some sense as the rhetoric is sorted out in this country. Senators, I ask for you to also consider the fact that it is just too expensive for a small business to get involved in trying to reduce these barriers alone. We do not have the resources that large corporations have. We cannot go and set up plants in Mexico if we want to export there just to have some sort of provision where we are participating. It is necessary for us to be able to export.

Let us look at the educational system. In the inner city, neighborhoods like South Dallas have an education crisis that is just unbelievable. We do not see ourselves as being a part of a new economy. We do not understand why we ought to study subjects like Spanish or French, or anything like that. We do not believe that there is a reason.

But, if you give us the perspective that we will be supplying Mexico and some of the French provinces in Canada, well, all of a sudden those subjects become a reality for us and we begin to have a different perspective on education.

It is the challenge that we deserve in the inner city, to condition ourselves to be true global business people. It gives us an opportunity as entrepreneurs, not just employees. For so long we have conditioned ourselves just to work for someone. NAFTA gives us an opportunity to explore different horizons and to work for ourselves.

NAFTA also has a very, very outstanding humanitarian aspect to it. One trip to Mexico, and you can see that something has to be done with that sick economy down there. NAFTA gives us an opportunity to stimulate that economy.

Well, my experience—and I am not a historian—tells me that we, as U.S. citizens, are going to get involved with people if they are hurting, no matter where they are around the world. I am suggesting that trade, not aid, is the answer. Let business people provide some of the solutions. Let us create an economy that all America's citizens can be a part of. I think that is important.

These are my comments on NAFTA. I have submitted to you, Mr. Chairman, some written comments for the record. If there are any questions, please let me know. Thank you.

The CHAIRMAN. We thank you, Mr. Black. Do I take it that your firm is in that area that I understand is called just-in-time inventory?

Mr. BLACK. Absolutely.

The CHAIRMAN. Well, you finished your testimony just in time.

Mr. BLACK. Thank you, sir. [Laughter.]

The CHAIRMAN. Remarkable.

[The prepared statement of Mr. Black appears in the appendix.]

Mr. Randy Cruise, who is President of the National Corn Growers Association, and comes from a town with the pleasant name of Pleasanton, NE. Good morning, sir.

STATEMENT OF RANDY CRUISE, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, PLEASANTON, NE, ON BEHALF OF AGRICULTURE FOR NAFTA

Mr. CRUISE. Thank you, Mr. Chairman. I appreciate being asked to testify in front of the Senate Finance Committee today. I am here, also, as a spokesman for Ag for NAFTA.

The CHAIRMAN. Oh. Agriculture for NAFTA. Right. I am sorry. Yes, sir.

Mr. CRUISE. I am both the President of the National Corn Growers and spokesman for Ag for NAFTA, which is a coalition of 150 farm organizations, businesses, and related groups. Ag for NAFTA represents the majority of American farmers.

The North American Free Trade Agreement comes at a very critical time for American agriculture. We are fighting for our export market which, in many cases, including corn, have dropped significantly in recent years.

The European community continues to distort world trade by encouraging the over-production of commodities and dumping those surpluses on the world market, not only robbing us of our customers, but lowering our prices as well. In addition, the trade is restricted by the European community members, Asian countries, and even Mexico, through tariffs and non-tariff barriers.

The former Soviet Union has gone from our best ash customer to one that is hanging on by its fingernails. We are seeing our exports continue to spiral down, and we must stop that trend. NAFTA is a rallying point for mounting new export offensive.

As you are all well aware, rural America is suffering from chronic unemployment and a continued sluggish economy. While the plight of our cities gets most of the attention in the news, we in rural America need help, too. We do not want handouts, but we need better prices for our commodities so that we can afford to buy goods, and we must have more rural jobs. NAFTA can achieve both of these basic needs.

Mexico has gone from being a closed economy in 1986 to one that is opening further and further. With this agreement, it will engage a totally free trade with Canada and the United States in just 15 years.

The USDA has projected by the end of the 15-year transition agricultural sales to Mexico will increase by $2-5 billion. We simply cannot afford to turn our back on a potential $6.5 billion market. We desperately need jobs in rural America, and NAFTA will help to achieve this goal.

Mexico is a tremendous market for value added goods. Increased demand in value added goods means construction jobs to build more processing plants, jobs to process our raw materials, jobs to export those value added products, and higher prices for farmers' commodities. Passage of NAFTA will protect these jobs already here as a result of trade with Mexico, and it will create new jobs in rural America.

From the perspective of the U.S. corn farmer, Mexico has been a steady market, until recently. Mexico has choked off our shipments of corn through an export licensing program. The removal of this barrier was absolutely necessary for us to deem the NAFTA negotiations a success.

The pact before us today would eliminate the export licensing program and replace it with a tariff rate quota. The initial level of duty-free imports would be about 2.5 million metric tons, which a compounded rate of growth at 3 percent a year for 15 years. At the end of that period, all the trade of corn would be unhindered.

While one always hopes for immediate free trade when it benefits us, or for a higher tariff rate quota, the level negotiated is certainly a substantial improvement over the recent trend. The 2.5 million metric ton base level would place Mexico back among the top five importers of corn.

The good news for the American corn farmers does not end with more sales of raw materials. Meat exports would also increase dramatically under NAFTA. In the beef industry alone, the industry's revenues would increase between $200–$400 million annually under NAFTA. Poultry and pork industries have seen their exports to Mexico rise over the last several years, and this trend would continue under NAFTA. Simply put, we need the Mexican market for value added farm products.

The creation of the largest and richest free trade zone, which, of course, includes Canada, is, in itself, good policy. Also unfortunate, we need NAFTA to ensure against the failure of the General Agreements on Tariffs and Trade. As we all are very painfully aware——

The CHAIRMAN. Do not say that, Mr. Cruise. Do not even mention that possibility. But it is real, of course.

Mr. CRUISE. It is real, I am afraid. GATT has been continually delayed, allowing the European community to continue to dump agricultural products on the world market, lowering our prices here in the United States. While I hope the Europeans will begin to negotiate in good faith, I am not willing to bet on that occurring. Therefore, we need NAFTA. We should aggressively move forward in a bilateral agreement and address this free trade agreement.

There are a lot of other reasons why we should support NAFTA: illegal immigrations, environmental practices, and more. I am going to leave those subjects to others to discuss.

However, I feel strongly that this agreement is something that we need to help turn around our farm exports, increase our prices to our farmers, and create jobs for our constituents in rural America. Thank you very much.

The CHAIRMAN. Thank you, Mr. Cruise.

[The prepared statement of Mr. Cruise appears in the appendix.]

The CHAIRMAN. And, now, Mr. Krupp. We do discover, at the back of your testimony, the charts. Go right ahead.

STATEMENT OF FRED KRUPP, EXECUTIVE DIRECTOR, ENVIRONMENTAL DEFENSE FUND, NEW YORK, NY

Mr. KRUPP. Thank you, Mr. Chairman, and distinguished Senators. My name is Fred Krupp. I am the executive director of the Environmental Defense Fund, an environmental advocacy organization representing more than a quarter of a million Americans.

I would like to briefly explain to the committee why the Environmental Defense Fund, the National Audubon Society, the Natural Resources Defense Council, the National Wildlife Federation, the World Wildlife Fund, Conservation International, in all representing 8 million environmentalists, deeply hope that NAFTA and its environmental side accord will be approved.

Environmental conditions on both sides of the Rio Grande have deteriorated significantly. These problems have been carefully documented and abound without NAFTA. Meanwhile, more generally, in the United States we have forged ahead with national, State and local environmental laws; in some cases making great strides, in other barely inching along.

Yet, these laws which we have fought to obtain are today's subject to challenge under GATT. The current and proposed GATT rules give too little weight to environmental protection and specifically discourage State and local laws which are more stringent than Federal laws. Certainly, the tuna/dolphin decision which is of such concern to conservationists, is a GATT decision.

The truth is, there are real trade-related environmental problems. The truth is, these problems have occurred without NAFTA, and, without NAFTA, they will get even worse. Without this NAFTA there will continue to be increased trade and investment between the countries of North America and more industrialization along the United States-Mexican border.

Without this NAFTA, our rights to enforce trade obligations contained in the Montreal Protocol and in the Convention on International Trade and Endangered Species, and other international environmental agreements will be left to GATT rules and will not be secure.

Without this NAFTA, we have no agreement among the countries to resolve differences in their environmental standards by working jointly to enhance the level of environmental protection. Some believe, despite the gains which could be made with this NAFTA, that we could get a better deal for the environment if we reject this trade agreement and negotiate a new one.

I am hardly a political forecaster, but I do know that this trade agreement has already been renegotiated once in the form of the environmental side accord. And, while the negotiations did not achieve as much as I would have hoped, they did achieve real results.

In the environmental side accord, called the North American Agreement on Environmental Cooperation, the countries have agreed to specific commitments designed to improve enforcement of environmental laws, to enhance cooperative environmental problem solving, and to promote public participation. These are very important commitments.

If the side accord is adopted, a person or NGO who believes that a country is not enforcing its environmental laws will be able to make those allegations to the new Commission for Environmental Cooperation. Allegations are subject to thorough and open investigation.

And, if a country believes that another country persistently fails to enforce its environmental laws, it can demand a consultation. And if, after consultation, there is still a dispute, there can be a process which ultimately leads to fines, and, in the case of the United States and Mexico, trade sanctions.

The commission's council will advise the NAFTA's Free Trade Commission on specific environmental provisions, develop recommendations on the conservation of natural resources, and regularly monitor the environmental consequences of freer trade.

I have no way of knowing whether the Mexican and Canadian Governments are bluffing when they say they have gone as far as they can go on the environmental side accord. But, I fear, even if today they were suddenly to reverse themselves, it would be years before we would be back in this room talking about approving an agreement which would represent such great strides.

As the committee moves forward to draft an implementing bill, State of Administrative Action, and a committee report, we urge you to adopt recommendations that will reaffirm the protection of U.S. laws, promote the use of binational agreements, provide necessary funding for United States-Mexico border clean-up, and the new Commission for Environmental Cooperation and ensure openness and opportunities for public participation in solving environmental problems. Details on each of these are also attached to my written testimony.

Because our border environmental problems have been ignored for so long, I believe it is critical to demonstrate quickly and clearly that this situation will change. An excellent opportunity to do just that is in sister cities of Juarez, Chihuahua, and El Paso, TX. We would ask for your help in getting the administration to move quickly on creating an international air quality management district.

We, in the environmental community, will continue to press our concerns, with or without NAFTA. This trade agreement, nor any trade agreement, will not solve all environmental problems. But we do sincerely believe that this trade agreement has moved the process forward, including setting the stage for long overdue reform of the GATT.

Mr. Chairman, these charts basically elaborate on my testimony to show what the situation is, both with NAFTA and without NAFTA. And, in case after case, I think it is clear that the environment is better off with NAFTA.

The CHAIRMAN. Well, that clearly is your view, Mr. Krupp.

[The prepared statement of Mr. Krupp appears in the appendix.]

The CHAIRMAN. And, may I thank each of our witnesses for being concise and giving us a chance, now, to ask questions. Do not hesitate to comment on what others have said. I mean, we are here for that purpose. Senator Packwood.

Senator PACKWOOD. Mr. Junkins, the principal argument that you hear, or at least I hear, against NAFTA is the 50-cent an hour Mexican wages which, of course, are not truly 50 cents an hour, but how can we possibly compete when we are paying $16 an hour.

Take Texas Instruments. What percent of your total costs, what we would call floor wages, the kind of wages, the kind of people that could be moved, or the kind of jobs that could be moved to Mexico—not your R&D. You will probably keep that here. I do not think you are going to move to Mexico, and your CFO is probably not going to move to Mexico. How much of a part of your cost is floor labor, or manufacturing labor? Call it what you want.

Mr. JUNKINS. With that definition, Senator, certainly less than 10 percent, in some cases less than 5 percent across our products. Our total payroll is in excess of 20 percent of revenues. But, in the context that you ask the question, you are talking about something that is a very small percentage.

Senator PACKWOOD. And that small percentage would be conceivable if you moved.

Mr. JUNKINS. Yes. You are talking about anything that would move or anything that you would set up generally tends to be, in the early stages of development, manufacturing operations.

Now, as world markets develop, they can turn into design and business marketing and activities on their own. But, in the early stages—our history has been over 30 years—certainly, those are the things that you would consider.

Senator PACKWOOD. Well, your answer corresponds to other witnesses. We have a lot of electronics manufactured in Oregon, as you are well aware. The three big ones are Hewlett Packard, Intel, and Testronics. Their answer, I do not think, varies a percent from what you have said in terms of their floor labor costs.

Mr. JUNKINS. In our own situation—and part of it has to do with how much investment is there, and how much investment you might make—our specific wages there are in the $2.50 range, with about 77 percent of benefits on top of that. But it is almost a mirror image of productivity. That is just about the productivity difference, also. So, it is not that big of a difference at all.

Senator PACKWOOD. Take us through your thinking, now, as, after you looked around the world, you decided to locate this immense, additional operation in Dallas.

Mr. JUNKINS. The main issue today in terms of, where do you put a factory, is how best can you serve the world market. This particular one will be the most advanced facility that we will build. Products will not flow from it for another 3, 4 or 5 years. The early stages will be in research and development.

We put it in Dallas because it was close to our R&D facilities, we have put it in Dallas because it was close to our most experienced technical staff, and we will extend this to a full production facility as the market develops.

Looking around the world, we could have put it in Japan, we could have put it in Europe. We have made recent investments in other places to pursue the marketplace. But it was, plain and simple, the best thing for us to do in terms of return on that investment.

Senator PACKWOOD. Now, Mr. Black, I take it you do not have quite as many employees as Mr. Junkins.

Mr. BLACK. Not quite. We are working on it.

Senator PACKWOOD. How many do you have?

Mr. BLACK. Twenty employees.

Senator PACKWOOD. So, you are a very typical small business.

Mr. BLACK. Absolutely.

Senator PACKWOOD. You have been going for how many years?

Mr. BLACK. We have been going now for 11 years.

Senator PACKWOOD. And tell me the principal thing your business does.

Mr. BLACK. We supply inventory control systems, warehousing, distribution services, as well as a line of copy and computer paper supplies to Fortune 1,000 companies.

Senator PACKWOOD. And you face the challenge of the Mexican market quite optimistically.

Mr. BLACK. Sure. Absolutely. We have to be a part of this world market. No longer can we have a narrow paradigm of just supplying Dallas, Texas. Our goal is to supply the world.

Senator PACKWOOD. Today, Texas.

Mr. BLACK. Tomorrow, the world.

Senator PACKWOOD. Does small business, as opposed to Texas Instruments, need any unique help from the Federal Government, or do you feel that just the agreement, in and of itself, will be all you will need and you will make your way beyond that?

Mr. BLACK. Oh, I think we need some more assistance. I think we have to look at our education system and do a better job of informing, especially inner city education systems.

Senator PACKWOOD. That is not unique to small business, though.

Mr. BLACK. No, it is not. It is really not. But small business seems to suffer the most because we cannot recruit the best, but larger business oftentimes can. We are stuck with those that are functionally illiterate. And when we get a chance to have a world paradigm, I think that it encourages all to become more intelligent about different cultures in different parts of the world.

Senator PACKWOOD. You were very expansive and an excellent witness. I appreciate it.

Mr. Cruise, tell me the advantage, from the standpoint of corn, when we convert all of the licensing and other procedures to tariffs so at least that you know what the dollar amount is.

Mr. CRUISE. Well, immediately we will see our exports to Mexico increase to 2.5 million metric tons, comparing that to this year's exports of less than 500,000 metric tons. That is almost a five times increase immediately upon that. And the market will continue to grow for 15 years at a 3 percent growth rate, and, from that period, we move into an unhindered trade relationship with them.

But corn has a second plus to it because of the value added products that we relate to, and the meats, and the poultry, and the other products that will be able to be shipped to Mexico through those increases. I come from the State of Nebraska where livestock is a big part of our production also, and we are addressing those value added products as a real plus for us also.

Senator PACKWOOD. Thank you.

The CHAIRMAN. Thank you.

If I may say, I am required to be at the Foreign Relations Committee to produce a quorum on important matters, and I wonder if I could ask Senator Baucus, who is the Chairman of the Trade Subcommittee, to preside. Thank you, gentlemen.

Senator BAUCUS. Thank you very much, Mr. Chairman.

Mr. Junkins, if NAFTA does not pass, how will that affect your company?

Mr. JUNKINS. Senator Baucus, I suspect there is too much rhetoric in terms of how good things are going to be or how bad they are going to be the moment this either passes or fails, but I think, if you look beyond that, what it does is continue to throw roadblocks in the path of people like us as far as pursuing markets around the world. And my judgment is that we have a unique opportunity here that if we do not do it, we will see worldwide competitors begin to take advantage of this.

There was an article in yesterday's Dallas Morning News written by the Mexico City Bureau that I can put in the record, and maybe there is some saber rattling here, looking at the alternatives for Mexico and what President Salinas is or might be looking at as far as discussions with Europe and the Far East.

So, in my mind, it just inhibits our ability to participate in the economic growth of this hemisphere. What will we do? We will still find places in the world to try to be competitive as far as building product and try to find places in the world to pursue markets. But it inhibits our ability to do that.

Senator BAUCUS. I would like to ask Mr. Krupp a couple of questions. Mr. Krupp, looking at the testimony of the next panel, particularly of Ms. Lori Wallach, who is Director of the Trade Program for Public Citizen's Congress Watch, on page 2 and 3 of her testimony she summarizes her testimony and her reasons for opposing NAFTA. I would like to read them and summarize them for you, and I would like your response.

Mr. KRUPP. Sure.

Senator BAUCUS. First, is that essentially, existing U.S. Federal, State, and local environmental laws are exposed to challenges and illegal trade barriers under NAFTA. She is saying that trade laws will somehow damage or harm existing U.S. Federal, State, and local environmental laws, that that would be the case under NAFTA.

Mr. KRUPP. Well, I think that is clearly true under the GATT, and I think NAFTA improves the situation. However, I think we have requested, in my testimony, that in the implementing legislation you reinforce the clarity that State laws are given preeminence. Under GATT, as the chart shows, there can be challenges, and NAFTA represents an improvement in the situation.

Senator BAUCUS. Let me ask the question this way. Is there anything under NAFTA that you think undermines the status quo with respect to the U.S. environmental section?

Mr. KRUPP. No. I think it is an improvement of the status quo in every area that I can think of.

Senator BAUCUS. And those areas would include, for example, clearly establishing the burden of proof on the party claiming that U.S. environmental statute contravenes NAFTA. That would be one improvement, would it not?

Mr. KRUPP. Right. The burden of proof would be switched, so the burden would go on the party challenging the standard. And any statute that has any scientific basis would prevail.

Senator BAUCUS. Which is to say that, today, it is unclear who has the burden of proof, at best, in the international arena.

Mr. KRUPP. At best. And we, as I have tried to make clear in my testimony, are upset and think GATT needs to be substantially reformed.

Senator BAUCUS. But the point is that NAFTA does clearly establish the burden of proof is on the party claiming that the environmental law contravenes NAFTA.

Mr. KRUPP. That is right. So, with respect to Canada and Mexico, if NAFTA were to be defeated, we would be left in the unpleasant situation of having the GATT rules apply.

Senator BAUCUS. So, that is an improvement for the environment.

Mr. KRUPP. Yes.

Senator BAUCUS. Second. Is it not also true that, under the GATT today, a country can successfully challenge a State or local environmental standard if it is higher than the national standard?

Mr. KRUPP. Yes, that's true.

Senator BAUCUS. Generally, the answer is yes. Now, is it also true, therefore, that under the NAFTA that is corrected, because under the NAFTA a higher State or local environmental standard cannot be successfully challenged by GATT so long as it is non-discriminatory and is clearly an environmental statute?

Mr. KRUPP. Yes.

Senator BAUCUS. So, that is an improvement for the environment. Is that correct?

Mr. KRUPP. That is an improvement. The provision of billions of dollars of financing represents an improvement.

Senator BAUCUS. That is the next point I am getting to.

Mr. KRUPP. Right.

Senator BAUCUS. The next point. Is it also true with respect to the border and the clean up that provisions whereunder both countries agree—I have forgotten the latest figure, it is either $6 billion, or $8 billion, that there definitely will be a much greater clean up of the border under NAFTA than without it.

Mr. KRUPP. Yes. I think, Senator Baucus, what you are illustrating is that, although the environmental groups—those that have come out opposed to NAFTA and EDF, and the others that favor it—have the same goals, we have a difference of tactics.

We believe that there is an improvement with NAFTA. I think some of the others believe if NAFTA is rejected there can be an even stronger agreement with more goodies thrown in approved. And I just disagree, as a political matter, that that is very likely to happen.

Senator BAUCUS. And, is it your view that even though the side agreements are not perfect, that they are, from an environmental perspective, better than the status quo?

Mr. KRUPP. Unequivocally.

Senator BAUCUS. Thank you.

The CHAIRMAN. Thank you, Senator. Senator Grassley.

Senator GRASSLEY. I will start with Mr. Junkins, because you were on the Advisory Committee on NAFTA, and I would hope you would have known something about the intricacies of the NAFTA debate.

I mentioned in my opening statement my concerns about the appliance industry and the phaseout of tariffs over a 10-year period of time of our home appliances exports into Mexico, yet Mexico tariffs into the United States are immediately done away with.

Would you have any knowledge as to why the agreement was negotiated so disproportionately for the appliance industry on this side of the border?

Mr. JUNKINS. Senator, you give me more credit than I deserve in terms of knowing the intricacies of this agreement. In specific answer to the question, no. I think, certainly, the negotiators themselves would have to answer that.

There are certainly parts of our membership that have similar problems with NAFTA that you describe, where a particular segment of industry has a slower phase-out than we would prefer. And I think we have encouraged Ambassador Kantor to re-engage as soon as possible to see if some of these can, in fact, be speeded up from some of the specific agreements that have been put in place, but that is not the only place where that problem exists. Generally, I think it is felt that, across the board, there is a fair phasing out of these tariffs on both sides of the border.

Senator GRASSLEY. Maybe you could comment for me, since I really do not have a feel, other than just the fact that Mr. Kantor said that they are going to try to work something out to solve these problems, what your feelings are as to whether or not we will get some response from this effort?

Mr. JUNKINS. Well, I agree with the discussions earlier that to re-open the negotiations is probably an impossible, and certainly an impractical situation. There is language in the agreement that——

Senator GRASSLEY. And I accept that, too.

Mr. JUNKINS [continuing]. Allows for re-engaging and seeing if some changes can be made in that. And, as I said, there are certainly some parts of the business community that would prefer that that be done, and there have been comments made to the administration on that. So, from comments that Ambassador Kantor has made, I would assume that he would re-engage as quickly as possible to see if, in fact, that can be sped up.

Senator GRASSLEY. Now, as I indicated, he has said that he would try to do that, to me and other people in Congress interested. Have you gotten that same indication?

Mr. JUNKINS. He has made that same indication.

Senator GRASSLEY. Might I also ask you a further question? We do not want to assume that the House of Representatives is going to defeat this, but if the vote were held today I think we believe that that would be the case. Do you believe that the Mexican Government is poised to bring in either the Europeans or the Japanese to fill a void if we do not approve this treaty?

Mr. JUNKINS. Well, Senator, I referred to yesterday's article in Dallas Morning News that had those kinds of indications of the Mexican Government looking at what alternatives might be there, and beginning to at least have some discussions. And, as I said, I am not sure how much that is reality and how much that is saber rattling at this stage of the game. But I think it would be impractical to assume that the status quo was going to be here.

I think that, politically, that would be difficult for the Mexican Government, and, practically, I think they see the advantages of opening these trade walls. And, for their own self-interest I suspect they would look elsewhere. And, from my personal point of view, that is a very serious situation, to create that vacuum, as I said in my testimony, and let others fill it because we disadvantage ourselves.

Senator GRASSLEY. So, you see some very serious consequences.

Mr. JUNKINS. That is a concern to me. Yes.

Senator GRASSLEY. Do you think that if NAFTA is agreed to that it will lead, as some people in this country believe, U.S. companies to move their operations to Mexico to avoid environmental standards?

Mr. JUNKINS. No, I don't accept that at all. I think the agreement itself covers and touches most of those areas. And, again, from our own experience around the world, we basically have a policy of meeting our own standards or local standards, whichever are higher. I think that any business that would move for some short-term gain on that basis would be making a bad investment anyway, and I cannot conceive of that.

Senator GRASSLEY. Will a NAFTA, if improved, increase immigration to the United States from Mexico, illegal or otherwise?

Mr. JUNKINS. I would not think so, sir. I think it would have the opposite effect. It would build affluence in Mexico and we will take some of that pressure off.

Senator GRASSLEY. Yes. Do you think Mexico, in any way, would lower its wages and working standards to encourage American business to come to Mexico?

Mr. JUNKINS. Well, I cannot speak for what Mexico would do. But the history of development in developing countries around the world has not been that. Developing countries certainly have started with low wages, and we begin with capital exports. And, as they become more affluent, they become consumers in their own right, and that is what we have seen happen in developing countries around the world. I would not think this would be any different.

Senator GRASSLEY. On that last point, I do not have a question. But I would sure like to have—I think he raised a good point at the tail end here where he talks about, over a long period of freeing up trade with other under-developed nations, what has happened in these countries. Maybe we need to remind the American people that we have had 40 years of freeing up of trade and we have benefitted from it as nations that have freed up their trade have benefitted from it as well.

The CHAIRMAN. Thank you, Senator Grassley. If I could just, not in any adversarial mode, say that we do not want to not know the history of the trade in cereals, wheat and corn in the great migrations from Europe in the 19th century.

That swarm of folk who came through Ellis Island starting in the 1870's, 1880's, 1890's, and the first decade of the century came in direct response to the arrival in the Baltics of corn and wheat from Iowa and Nebraska, which was so much cheaper than the products of a still baronial agriculture economy. And the Junkers closed down and everybody moved to Brooklyn, which has been great for

Brooklyn. What that means for East Prussia, I cannot say for sure, but that was the effect.

Senator GRASSLEY. But, likewise, Mr. Chairman, in Korea, Taiwan, Singapore, and a lot of the Pacific Rim countries that, after World War II were really destitute, and we had a lot of farmers that were concerned if we helped them improve their economies, like growing their own food, that it would cut down on our sale of agricultural products to those countries.

But, just the opposite occurred. As we helped them to produce food and they got their standard of living up, they improved the protein within their diet, they became more productive, they learned what a better standard of living was, they wanted more.

And they may not be importing as much raw grain from us as they used to, but, because of their better standard of living, they are importing a lot of value added agricultural products as well as manufactured products.

The CHAIRMAN. A fair point.

Senator GRASSLEY. And we are selling more, agriculturally, to them now than we were in the 1950's when we were worried about, if they produce more that maybe we would not sell as much.

The CHAIRMAN. A fair point, sir.

Senator GRASSLEY. So, you know, if you are looking far ahead, there are plenty of examples of freer trade benefitting everybody, including agriculture.

The CHAIRMAN. Right. Now, why do we not let——

Senator GRASSLEY. Or even helping people to produce themselves even benefitting American agriculture.

The CHAIRMAN. Why do we not let Senator Chafee make this point for awhile?

Senator CHAFEE. I am weak on agricultural matters, Mr. Chairman. Is it my turn at bat?

The CHAIRMAN. Yes, it is.

Senator CHAFEE. Well, thank you, Mr. Chairman. I would like to ask Mr. Junkins if he would comment on Mr. Hubner's testimony, who is going to come on later. And Mr. Hubner said, in discussing why companies left the State of New York, on page 3, "The answer is simple: high wages, extensive regulation, high taxes left little or no margin to survive in business. Most of these factors are the same ones that will drive companies to Mexico under NAFTA."

In other words, Mr. Hubner seems to rebut what you are saying. He says, in effect, high wages, extensive regulation and high taxes are the factors that would drive companies to Mexico under NAFTA. Now, I am curious. Is there any reason that a company would go to Mexico under NAFTA that they would not go there now?

Mr. JUNKINS. Senator Chafee, from our experience and what we know, no, there are no barriers at all to moving down there now. Other people have, if they deemed it made economic sense to do it. But there have been no barriers. In fact, it has been easier to move down there in the last 2 or 3 years than it has been previously. So, I cannot think of any reason.

Senator BAUCUS. If the Senator would yield just very briefly on that point.

Senator CHAFEE. Sure.

Senator BAUCUS. Some might argue that, while it is true that the Mexican's higher trade barriers are being lowered, but, on the other hand, Mexico is opening up its country to more investment. That is, it is relaxing some of the present investment restrictions. So, I do not want to take the Senator's time here, but to what degree would that help encourage a company to go to Mexico, that is, more after NAFTA than before NAFTA?

Mr. JUNKINS. Certainly, freeing up the abilities to invest, and licensing, and all those issues make it an easier environment in which to invest. But that by itself, in my mind, is not the governing issue.

It is part of the whole liberalization of the trade itself, and investment will take place if it makes sense. But just the fact that it has been liberalized certainly did not make a difference in the decision that I mentioned earlier in terms of our placing our newest plant in Dallas.

Senator BAUCUS. Right. Thank you very much. I thank the Senator.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Well, I would just like to point out for the record this discussion about jobs fleeing where wages are lower—and I think Mr. Junkins rebutted that—but I would like to also point out that my State, Rhode Island, if you can believe it, has the second-lowest manufacturing wage in the country. And we are not flooded with companies coming in, regrettably. I wish that the area of low wages attracting business in-flow in manufacturing were a little truer, as far as it applies in the United States, but it does not. And, regrettably, we are not having an influx of manufacturing jobs, we are having, to some degree, an exodus. So, I can cite from personal experience, having seen our State and having been intimately involved with it for many years, that it simply does not work that way.

The points Mr. Junkins made are very valid: what your tax rates are; what your workers' compensation is; what the cost of your imports is; what kind of infrastructure you have; what kind of overall taxes; and the training and skills of the workers are what can and do make a tremendous and crucial difference.

I must say, I thought your testimony was surprising on the point that only a small amount of your total expenditures are devoted to manufacturing on the floor—not design, not sales, not engineering. I think you said about 5 percent.

Mr. JUNKINS. Yes. Between 0–10, but typically 5 percent or so.

Senator CHAFEE. Now, Mr. Cruise, what have you got to say about Mr. Rohland's statement. You talked about the great exports that we are going to see in corn. I think you said corn exports are going to increase about 150 percent.

He says, "Mexican basic grain farmers will suffer disproportionately under NAFTA as they lose their supported corn price. These farmers will be forced to compete with the cheaper U.S. grain and other foreign suppliers due to our export-driven, low loan rate corn policy. Large scale displacement of Mexican farmers is estimated anywhere from 800,000 to 3 million families."

This is exactly pursuant to what the Chairman was saying about the latter part of the 19th century affecting northern Europe. If you are going to sell all this corn, it means, presumably, that the Mexicans are buying it in place of corn that they were presumably buying from their own farmers. Is this not going to have dramatic displacement problems with farmers in Mexico?

Mr. CRUISE. Well, the overall effect back in 1987, I think it was, that Mexico actually imported about 4.5 million metric tons of corn because of a very short crop that they produced that year. This is a 15-year transition period that we are going to be going through for the corn industry. That is why it has been stretched out for a lengthy time. A lot of their corn that they produce in their country is produced on less than 2 acres of size on the farm. It has been hardships to the farmers and their country.

The overall benefit to that consumer, to that producer, within the structure of their economy, is going to increase in value because that producer is going to, if he does, translocate to a higher-paying job, one that will return a larger benefit to his family because of some displacement that will take place, there will be some displacement, there is no doubt about it, if that product from corn and other commodities come into Mexico. But, the overall net effect to that is going to be positive for that producer and his family.

Senator CHAFEE. Well, I suppose what happened to displacement, if Mr. Rohland is correct, in Mexico, is the Mexican's concern. Obviously, they are enthusiastic for the treaty, so presumably they have thought through this.

Mr. Rohland then goes on to say something that, I must say, I cannot quite understand. In the same paragraph he says, "Farm labor wages in the United States will be pushed downward." I do not quite see that. Certainly, under the scenario you point out those wages would not be pushed down if our exports are going up 150 percent, would they?

Mr. CRUISE. They definitely would not in our industry, whatsoever. We are going to see a continued population growth. They have a population over 90 million people today. It is going to continue to increase.

If their standard of living increases, they are going to demand more product. They are not going to be able to meet that demand of that product for the people within their country if that increase takes place.

With the continued increase, someone has to supply that product to them. And our goal is that the U.S. farmer, who is very competitive worldwide, will have that opportunity to supply that market.

The CHAIRMAN. Senator Chafee, why do you not go on?

Senator CHAFEE. No, that is fine. That completes the questions I have, Mr. Chairman. I am sorry I cannot stay for Mr. Rohland's testimony, and that of Mr. Hubner. But I was curious what the answer would be. Thank you.

The CHAIRMAN. Thank you. Senator Bradley.

Senator BRADLEY. Thank you very much, Mr. Chairman. I was interested in your comments about East Prussian immigrants to Brooklyn, and the efficiency of American agriculture in the late 19th century's impact on those agricultural areas of Europe because, not only was that the case that worldwide exports were probably at one of the highest points ever, but that U.S. agriculture was becoming much more efficient and the number of people working on the farms in the United States were dramatically declining.

And that is really the point I think Mr. Rohland is making, that the Mexican agriculture is much less efficient, much more labor intensive, and will not be able to compete with American agriculture in some products. In other products, they will. So, that will create some displacement.

But the real question is whether we shy away from taking this step forward because of some displacement in some sectors of the economy. And I think that the Mexicans have answered, no. Fifteen years is not overnight. There is a long period of transition here. There are real opportunities to break down some of the agricultural systems of Mexico and bring it into the 21st century, literally and figuratively. And, in that sense, there is much less pressure.

At the same time, once you have access to the market, you never know what is going to happen, particularly with consumer goods. I mean, just taking another example in another part of the world, in China, the average Chinese consumes one Coca Cola per year. The average American consumes one Coca Cola per day. In terms of a market of a billion people, that is a significant market of consumer goods.

The idea is, with a market of 90 million people in Mexico and growing, once you have access to that market and you have laid the foundation for export of consumer goods, it has potential growth in areas that have yet to be decided. But I want to get to questions, I do not want to make this speech.

Senator ROCKEFELLER. And I would point out to the Senator, Coca Cola has Russia, Pepsi has China.

Senator BRADLEY. I would beg to differ you on that point.

The CHAIRMAN. No, no, no. Pepsi has Russia. [Laughter.]

Senator BRADLEY. I would say to the Senator from West Virginia, if he would like to dispute those figures, I would very much like to take him to Atlantic City. [Laughter.]

Let me ask Mr. Junkins, if I can, because I think this is really one of the key points of this whole debate, why are wages—and each of us have asked you that in another way—not determinative for a plant location decision? There are other factors, as you have said. I wish to know, if you could, to try to describe in as simple and clear language as possible, what are those other factors? You are running this large company. Say you are paying, what $3.20, $3.27. And, in this country, your wage is what?

Mr. JUNKINS. $12.5.

Senator BRADLEY. $12.5.

Mr. JUNKINS. Plus 30 percent, or so.

Senator BRADLEY. So, why would you not take a $3.27 wage in Mexico as opposed to one four times as high in the United States? Why would you not just move it all down that? That is what the opponents say is going to happen, they are just going to move it all down there. Why would you not?

Mr. JUNKINS. There is a host of reasons. The first, and most simple is——

Senator BRADLEY. Just take your time and lay it out.

Mr. JUNKINS. Senator, there is about that big a gap in the productivity between the two countries.

Senator BRADLEY. And what does that mean to the guys up there——

Mr. JUNKINS. That means that output per person here is five times or six times better than equivalent output there.

Senator BRADLEY. So, you have got that worker working an hour, but what he produces is one-fifth the amount.

Mr. JUNKINS. And that is partly because of capital investment, and it is partly because of education and training of the work force, it is partly because of regulation, the critical mass, in terms of how big factories are. There are a lot of things that go into the decision. But, specifically, if you look across the broad range and in our own example, wages are about right compared to the output per person.

Now, as the output per person grows, as capital equipment flows into the country over the years, the standard of living will go up, wages will go up, and, in the world market, it will match whatever competitive wages there are in terms of output.

Senator BRADLEY. How important is infrastructure to you?

Mr. JUNKINS. Infrastructure is extremely important, in fact.

Senator BRADLEY. What does that mean to you as a businessman? What is not present in Mexico now that must be present to meet this need?

Mr. JUNKINS. For our most critical operations, the one that we just placed in Dallas, it is uninterruptable power, it is transportation, it is the level of——

Senator BRADLEY. Uninterruptable power. And that comes from what?

Mr. JUNKINS. That comes from having a power supply or a power grid that does not allow you to miss one cycle because of a power outage where it scraps everything in the production line.

Senator BRADLEY. And Mexico does not have that.

Mr. JUNKINS. Today, where we are today, it would not be reliable enough to do that.

Senator BRADLEY. And what would you say is the investment that Dallas has put into its power grid to be able to guarantee you the ability to plug in and take off?

Mr. JUNKINS. I have no idea, Senator.

Senator BRADLEY. It is literally in the billions. Right?

Mr. JUNKINS. Yes.

Senator BRADLEY. And if this were to take place in Mexico, where would Mexico buy these power grids?

Mr. JUNKINS. I would presume that a great deal of them, if we sign an agreement like this, that kind of capital and infrastructure capital, whether it is power grids, computers, control, or telecommunications, much of that will flow from this country.

Senator BRADLEY. And are those things, once you buy them, they last forever?

Mr. JUNKINS. Certainly not in the computer industry. It is rolling over about every 3 years, in terms of new generation.

Senator BRADLEY. So, that there would be a new demand for these goods that are produced in the United States. So, that the fear that, somehow or another, there is going to be this big move, and suddenly, overnight, they are going to be set up as competitors, ignores a lot of things.

Mr. JUNKINS. That is correct. There are many more aspects to it. Senator Chafee's questions about taxes, environment, and regulations, clearly, those are issues that we look at every time we make an investment.

Senator BRADLEY. Now, who are your biggest competitors in the world?

Mr. JUNKINS. Our biggest competitors in the world today are largely out of Japan, the major electronics firms in Japan, plus excellent companies here in the United States, Motorola, people like that.

Senator BRADLEY. And what are the barriers to Japanese exports to the United States?

Mr. JUNKINS. I have not found any in our industry.

Senator BRADLEY. So, is it conceivable to you that they might set up in Mexico at some point?

Mr. JUNKINS. I think the rules of origin address that issue very well in terms of——

Senator BRADLEY. Under the North American Free Trade Agreement.

Mr. JUNKINS. Under NAFTA. Exactly.

Senator BRADLEY. But, if there is no NAFTA——

Mr. JUNKINS. If there is no NAFTA, you know, they will do what they have done in other places in the world.

Senator BRADLEY. Which is set up——

Mr. JUNKINS. Which is set up and——

Senator BRADLEY. And jump over that little hurdle here called 4-percent tariff and into the United States.

Mr. JUNKINS. Certainly possible. Probable.

Senator BRADLEY. Displacing American jobs.

The CHAIRMAN. The prosecution rests. [Laughter.]

I have got to say something about New York before this is finished. Mr. Donald Kendall, of the Pepsi Cola Co., located in Purchase, NY, brought Pepsi Cola onto the restaurant tables in Moscow in the 1970's, and I think the trade was Pepsi Cola in return for Stoyichnaya Vodka, which is——

Senator BRADLEY. A great market transaction.

The CHAIRMAN. A great market transaction. Senator Rockefeller.

Senator ROCKEFELLER. Mr. Chairman, far be it for me to dispute that, and I will not. The reason I raised it is because I have relatives, to wit, my wife, who is a board member of Pepsi.

And, about 4 years ago, they went to China—the same gentleman that you have just mentioned, although he was retired at that point but went with them—and they made an amazing arrangement, which was that Pepsi would be allowed to be at loose, so to speak, in China if they would agree to quarry marble.

Now, Pepsi is not in the business of quarrying marble, but they had a brief meeting, decided they were going to be in the business of quarrying marble and that 1 billion customers stared them in the face.

But I will not accompany the Senator from New Jersey to Atlantic City; I will sit here pondering the difficulties of life.

Senator BRADLEY. Well, whether quarrying marble in a bartered deal is the way to penetrate a country who is rapidly moving to a market economy—the other soft drink bets the other way and is just dealing with the market economy and not dealing with the bureaucrat and the quarrying of marble. But, then, that is different strokes for different folks and we will see who gets ahead.

The CHAIRMAN. Senator Rockefeller, would you address your questions to the panel?

Senator ROCKEFELLER. I have none. I will wait for the next panel, because I did not hear this panel's testimony.

The CHAIRMAN. Well, that is very generous of you.

You have been wonderfully responsive and very helpful to the committee. We thank each of you.

Mr. Cruise, I am particularly aware that our witness list has it as Agriculture for NAFTA, but you prefer it as Ag for NAFTA.

Mr. CRUISE. Yes.

The CHAIRMAN. And I see that Senator Packwood has a list of the members of your organization, and I think that should be placed in the record, as well. Thank you all very much.

[The information appears in the appendix.]

The CHAIRMAN. Now, we thank our next witnesses for their patience. It just happened that they were the second panel.

Mr. Cornelius Hubner, who is chairman and president of the American Felt and Filter Co. of New Windsor, NY, and he is speaking on behalf of the U.S. Business and Industrial Council. Good morning, sir.

Mr. HUBNER. Good morning.

The CHAIRMAN. Mr. Karl Platt, who is director of the Blenko Glass Co. in Milton, WV. Mr. Platt, are you here?

Mr. PLATT. Here, sir.

The CHAIRMAN. Good morning, sir.

Mr. Curt Rohland, who is President of the National Family Farm Coalition of Withee, WI. Mr. Rohland, good morning, sir.

And, finally, Ms. Lori Wallach, who is eirector of the Trade Program of Public Citizen's Congress Watch, here in Washington. Ms. Wallach, we welcome you.

In our established practice, we will start with Mr. Hubner, who comes from the Hudson Valley. It is very nice to have you here, sir.

STATEMENT OF CORNELIUS E. HUBNER, CHAIRMAN AND PRESIDENT, AMERICAN FELT AND FILTER CO., INC., NEW WINDSOR, NY, ON BEHALF OF THE U.S. BUSINESS AND INDUSTRIAL COUNCIL

Mr. HUBNER. Well, thank you, Mr. Chairman. And, members of the committee, I thank you for this opportunity to appear before the Senate Finance Committee today. I am Bud Hubner, president and chairman of the American Felt and Filter Co. whose headquarters are in Newburg, NY. In a personal observation——

The CHAIRMAN. It says here, New Windsor, which is on the other side of the river.

Mr. HUBNER. Yes, sir. On the other side of the creek. And I have two plants; one in New Windsor, and one in Newburg, NY.

The CHAIRMAN. I see.

Mr. HUBNER. And I note that Senator Chafee has left us. He said he was going to, but I also have a plant in his State, in Westerly, Rhode Island.

I am somewhat surprised to see as many Senators here—personal observation. I have been sitting behind this billboard and I was unable to see anyone over to the left.

Senator GRASSLEY. You are better off. I am sorry.

Mr. HUBNER. Let me offer an explanation of the kind of company that we are. We are an industrial textile manufacturer. We have been in business directly since about 1899. I acquired the business in 1978, and moved into Newburg when other companies were moving out.

We manufacture these industrial textiles which are essentially products for filtration, both liquid filtration—everything liquid today is filtered—and dry filtration, such as the stuff that comes out of smokestacks to prevent your lungs from being harmed. We are also in the business of making respirators.

I come, also, as a director of the U.S. Business and Industrial Council. And, just a brief explanation, if I may. We are over 1,000 members of small- and medium-sized companies, mostly privately held and owner-managed. We are the largest, or next to the largest, employers in many towns and cities across the country where we have provided jobs for many years.

Our members are auto parts manufacturers, furniture makers, oil exploration companies, textile manufacturers, Roger Milliken's company, Adolph Coors, and people like that, and myself.

Our aim, Mr. Chairman, is to preserve the business in America and the jobs that they support, and, if possible, to help re-establish the industrial base of the United States to its former preeminence.

I come to address you about two specific aspects of NAFTA. One, is the sovereignty issue, and the other is the issue of job evaporation. Let me, first, address sovereignty, if I may.

We, in the council, and I, as a businessperson, am concerned about a sovereignty aspect of NAFTA. This superimposes, in our opinion, as we read the sections pertaining to this, a governmental commission or commissions above our own domestic government.

The separation of powers that I learned about in my civics classes as a young person was very precise in forming our own government, and it gave us, any one of us that has problems with out government, the right of redress, the right to approach our courts, our politicians, our representatives, with hope to get some satisfaction.

We think that the binational, possibly tri-national groups that will be set up by NAFTA can and will affect that right. We are troubled by the side agreements. For example, the U.S. Trade Representative, Mr. Kantor, said, specifically, that the North American Commission on environmental cooperation would have broad authority, including—and this was frightening to me as a producer of goods—"a right to review environmental implications of products throughout their life cycle."

Also, commissions or a commission can be formed that will have to do with wages, hours, and those things that can threaten our businesses.

The CHAIRMAN. Mr. Hubner, you finish your testimony. We do not want to rush you.

Mr. HUBNER. Well, thank you very much, Senator.

We have, as a last resort in our business, when everything else fails, our dumping laws. We think that the commissions set up by NAFTA would negate some of the power of those dumping laws, which is our last resort as citizens and business people in the United States.

Also, I call your attention to the fact that many States over the last few years, and hundreds of cities, have installed what they call "Buy America" in their conditions of purchase. I think there are about 35 States, did I say——

The CHAIRMAN. Yes. It says so in your testimony.

Mr. HUBNER. [continuing]. And a number of cities. And we are very much afraid that NAFTA would impinge upon those regulations and those habits.

Let me go, next, please, to our considerations and my prime personal feelings about the loss of jobs. As a New Yorker, I have been in the unique, but unfortunate position to witness the outflow of companies and their jobs to lower-wage areas in less regulated States.

Mr. Chairman, the loss of manufacturing companies like DuPont, and other well-known names into the Carolinas, TN, and other Southern States in the 1960's and 1970's devastated our once prosperous Newburg and New Windsor areas.

I know I do not need to invite you to tour these areas once again; you have been there and certainly in the other cities in our State, to witness the industrial decay and the chronic unemployment, even the moral and spiritual malaise that follows in the wake of industrial relocations.

Those companies I stated in my letters to you, I would put it differently at this point. I would not say that high wages forced those companies out. I would turn it around 180 degrees and say that the low wages of the Carolinas and the southern States invited, grandly, those companies to come in.

Can we sit by and approve erosion of our jobs in this country as we have over the last few decades where product after product and industry after industry has gone overseas? I refer to our standard of living, Mr. Chairman.

You brought up the immigration of our forefathers in the 1880's and 1890's. May I continue from there? My grandpa and my grandma, and many grandpas and grandmas, I think, worked very hard in this country and their sons, and now their grandsons and granddaughters, to raise our standard of living to the point where we are socially and economically among the highest living standards in the world. I hope, happily, that we can continue that way.

It is my fear, however—and, indeed, I have fear—that the standard of living that we once experienced is slowly eroding and will continue to erode and NAFTA will be a great help to that erosion.

NAFTA, in our opinion, is a beautiful present to Mexico by the people of the United States. It opens up a vast hallway for the inflow of all kinds of low-priced products into the greatest market in the world. And I, for one, am terribly upset by that prospect.

The CHAIRMAN. Mr. Hubner.

Mr. HUBNER. Yes, sir.

The CHAIRMAN. We will have to ask you to hold there, and we will get back to you in the questioning. You have made your points very effectively and very well.

Mr. HUBNER. Thank you, sir.

The CHAIRMAN. And I was impressed by the reference to the amount of industry that has relocated from Canada to the Buffalo area, and analysts suggesting it is in response to lower wages in the United States. So, that is the pattern.

[The prepared statement of Mr. Hubner appears in the appendix.]

The CHAIRMAN. Mr. Platt, we welcome you, sir. You are, of course, in the glass manufacturing business. Please proceed.

STATEMENT OF KARL P. PLATT, DIRECTOR, BLENKO GLASS CO., MILTON, WV

Mr. PLATT. Yes. I wish to make it clear that I come here alone. I do not have suits and my boards and all that, so you have to put up with me.

I am a glass maker, and I work to furnish consumer and architectural markets with handmade glasswares. It has been my pleasure to work with the Usher's Office of the White House to cultivate domestic sources for handmade window panes for the Executive residence. This work was undertaken with the excellent craftsmen at the Blenko Glass Co. in Milton, WV.

Many hand glass factories, like those in West Virginia, particularly those making low value added items, simply will not endure open commerce with Mexico. The fact is, Mexico enjoys absolute rather than comparative advantages in this sector.

But I did not come here to cry the blues. On the contrary, the NAFTA seeks to make relocation of capital into Mexico secure. Therefore, it handily enables us making a mix of high- and low-value added items to shift low-end production to Mexico where it can be made much more profitably.

Yes, this gesture and its kin ultimately come at the expense of domestic employment. The NAFTA, however, recognizes quite nicely that domestic employment does not always accrue the most efficient profit. Given the raw economic circumstances, one wishes the tariff adjustment period for sector 7013 were absent.

But, of course, this has very little to do with why I accepted your kind invitation to come here today. I believe that the NAFTA debate has become mired in insoluble macroeconomic theory, shrill parochialism, and host of high-minded platitudes, none of which have anything to do with a substantial discussion of the NAFTA.

Instead, we must consider the NAFTA in terms of whether it is good for the United States and whether it is consistent with our constitution. In this light, I wish to briefly consider the agreement's Articles 19 and 20, which set out the protocols for dispute settlement, and I believe that they are very, very poorly understood.

As I read it, Annex 2004, a nullification and impairment clause attached herewith, arguably opens up State, and, indeed, local ordinances to scrutiny under Chapter 20's panel process. Pertinent examples would be electrical codes, trucking regulation, professional licensure, insurance regulation, or service certification, say, for exterminators.

The determination as to whether or not a State or local ordinance is compatible with the NAFTA does not take place in any sort of court anybody in this room would recognize. In fact, the matter is handed off to ad hoc dispute settlement panels who meet in secret proceedings.

Panelists are chosen from a roster of lawyers and trade experts who may well be beholden to non-party governments and trade interests for employment. There is nothing in the NAFTA to preclude this occurring, and experience with the United States and Canada Free Trade Agreement are troubling.

We also cannot ignore that the Article 20 calls for the Panelist's Code of Conduct to be determined ex-post-facto, or that Annex 1903.15 calls for you to give panelists explicit immunity for their conduct.

I, finally, wish to call attention to Article 1904, paragraph 11, which states, in part, "No party shall provide in its domestic legislation for an appeal from a panel decision to its domestic courts."

And, to contrast that with the 10th amendment, the powers not delegated to the States by the constitution, nor prohibited by it to the State, are reserved to the States or to the people. It would appear that the NAFTA circumvents the 10th amendment.

NAFTA parties are bound to either rescind or ignore any measure which a panel deems an impediment to the NAFTA, otherwise the party faces some largely unspecified suspension of benefits. However, I notice that the benefit suspension need not be made against the same sector as that being disputed.

One can, thus, plausibly imagine that a future refusal by a recalcitrant West Virginia to rescind its prohibition on triple semi rigs could result in coercive tariffs on U.S. telecommunications hardware going into Mexico. Here, a traffic stop becomes an international incident.

Let me return to Articles 19 and 20. Is it plausible that we could enact a law that eviscerates our useful courts by subordinating judicial review of local ordinance to ad hoc panels which mediate in secret, are void of culpability, and from which there is no appeal?

I will go on record as having politely pressed Ambassador Kantor and his General Counsel, Mr. Ira Shapiro, for clarification. They responded with what sounds life obfuscation and hyperbole.

I understand there is a strong, albeit very quiet trade foreign policy initiative afoot which aims to combine the whole of the Americas in union as a trading block. While this may or may not be good, it cannot proceed upon the faulty premises of the NAFTA's Articles 19 and 20.

I urge you all, Senators, to allow this hastily conceived agreement, with its imprudent dispute settlement protocol, to die the death it deserves. Out of this unfortunate experience, I believe the United States, Canada and Mexico can draft a better agreement that preserves national sovereignty, better protects valuable domestic industries, and cushions workers against severe dislocations. Thank you.

The CHAIRMAN. Thank you, Mr. Platt. That was very concise and very forceful, and you raise questions we will return to in questioning.

[The prepared statement of Mr. Platt appears in the appendix.]

The CHAIRMAN. Mr. Rohland, on behalf of the National Family Farm Coalition. We welcome you.

STATEMENT OF CURT ROHLAND, PRESIDENT, NATIONAL FAMILY FARM COALITION, WITHEE, WI

Mr. ROHLAND. Yes. Thank you, Chairman Moynihan, and the rest of the Senators. I believe my written testimony will exceed the allotted time, so I will read selectively and skip paragraphs.

The CHAIRMAN. We will place it in the record.

Mr. ROHLAND. And if you are trying to follow me, I hope I do not cause too much trouble for you.

The CHAIRMAN. Fine. Your statement will be put in the record as read in completion.

Mr. ROHLAND. So I understand.

[The prepared statement of Mr. Rohland appears in the appendix.]

Mr. ROHLAND. I will omit the first summary page of my testimony and move to the second page. I am pleased to testify on the important issue of agriculture and the North American Free Trade Agreement. I am president of the National Family Farm Coalition, representing 39 family farm and rural organizations across 32 States. I, myself, run a struggling family dairy operation in Withee, WI.

Today's media and political message that NAFTA is good for the U.S. economy is certainly missing the mark. Whether from an environmental, consumer, labor, or farmer perspective, the current NAFTA text and the supplemental agreements are devastating. Agriculture was totally ignored during the supplemental agreement process.

The 2-page description of the Early Warning System and the commission, as part of the Import Surge Agreement, failed to develop solutions as to what will be very immediate consequences for both dairy policy and broader impacts on the rural economy.

I speak as a farmer and a resident of a struggling rural community, one that is trying to maintain its education system, its infrastructure, and its rural economy. When USDA and other economists calculate who wins and who loses under the NAFTA and the GATT, they seem to forget that there are people, jobs, and livelihoods behind the luminous commodity export numbers.

Last week, both USTR Ambassador Mickey Kantor and USDA Secretary Espy claimed that increased exports would result both in higher farm income, and the creation of more jobs. The figure of 56,000 new jobs in the farm and food-related industries sounds like quite a few, but not when compared to the hundreds of thousands of on-farm jobs and rural manufacturing jobs that will be lost as a direct consequence of the implementation of the agreement. I question both of these assertions based on the experiences in my region of the country and across rural communities during the past decade or more.

Two weeks ago, let me interject, we had a Free Trade/Fair Trade Symposium in our capital of Wisconsin, Madison. There were between 300–350 people present, farmers, extension, university people, representatives of farm organizations, farm co-ops, and people who had taken part in the negotiation of the NAFTA.

About half-way through the day the moderator asked for a show of hands of who was opposed to the NAFTA, and who was in favor of it, and the undecided. Those opposed from my State of Wisconsin at that symposium were over half of those present, and the other 50 percent were divided more or less equally between those undecided and those in favor of passing the present NAFTA agreement.

Let me continue. Our failed feed grain policy is being exported to Mexico with the outspoken support of corporate agribusiness. It is clear that they care more about the volume of exports, not by whom and how the product is grown.

We assert that NAFTA is a direct extension of the Reagan-Bush agricultural and economic policies, that is, increased concentration of land and production, continuing lower world commodity prices, lower food safety standards, and the elimination of a country's capacity to determine its own agricultural programs and manage its own food supply.

The previous speaker has pointed specifically to how a country's ability to determine its own domestic policies—in this case, food and farm policies—is eroded under this international agreement.

The NAFTA will displace farmers and their rural economic base in Mexico and the United States. Since the Canadian Government opted out of the agricultural section of NAFTA, Canadian farmers have been given a short-term reprieve on the future of their successful domestic supply management programs in dairy, poultry and eggs.

But, if a GATT agreement based on the Dunkel text is approved, it would end their programs, as well. Those at greatest stake in this country are the producers of the commodities that now have a sensible and workable farm program that is based on a producer contracting with the government to limit production in return for a stable price from the marketplace.

Supporters of NAFTA hinge their entire argument on the premise that the agreement will create jobs through increased exports to Mexico. For evidence, the supporters point out that after the Mexican Government reduced its trade barriers in the mid-1980's, our exports to Mexico improved. The improvements in our trade surplus in 1991 and 1992 have been reversed in 1993, where it is falling and less than 50 percent of the level compared to last year.

NAFTA supporters and the administration contend that the trade agreement will create 200,000 new jobs. Claims range from this as a minimum or a maximum, despite many other economic studies claiming far lower increases. This is predicated on the jobs multiplier concept, a theory which holds that a figure of net jobs increases can be calculated based on the size of the U.S. trade surplus with Mexico.

As a farmer and a client of USDA and a taxpayer supporting USDA, let me include, at this point, that I am rather upset over the fact that, if this year, when farmers are suffering disaster from floods and too much rain across the entire Midwest, from heat and drought in the entire Southeast, and we are having a great deal of difficulty getting word out to farmers as to what disaster relief programs are available, the USDA has seen fit to prepare a very glossy portfolio of pro-NAFTA literature which I hesitate to think what it is going to cost just in postage alone to mail this out across the country. I think the money could well have been much better spent on taking care of the problems we have at hand and not promote this agreement. I do not think it is the place of the USDA to do this in the first place.

Let me go to the bottom of that page, please. This export-driven emphasis prevails within the agriculture and agribusiness community favoring NAFTA. Increased exports are presented as a panacea, which will allow U.S. agriculture to survive and prosper into the 21st century.

This line of thought pervades much of USDA, has fostered policies encouraging farmers to plant from fence row to fence row, and get bigger or get out. This year's low acreage reduction program, ARP levels, are just one more indicator of this persistent policy direction.

A thorough examination of NAFTA's effects upon the agricultural community must take into account farmers' forced dependence on all farm jobs, since their own farm income is, as calculated by USDA, hovers under $6,000. As all farm jobs disappear from rural America, the effect will be even greater, piled on top of the loss of farm income. I see you have given me the red light, Mr. Moynihan.

The CHAIRMAN. Mr. Rohland, take your time and get to your conclusion, of course. Then we will get back to questions.

Mr. ROHLAND. Yes. On the next page, the third from the last paragraph, I would like to point out that NAFTA guts the Meat Import Act and Section 22. Section 22, as you well know, has provided some leveling effect for those commodities such as dairy and peanuts in this country, against unfair foreign competition, as well as the remaining protection. The NAFTA guts that and the remaining protection for Mexico's most important domestic crop, corn, through the elimination of import restrictions. And that issue came up on the previous panel, and I will move on from there.

Let me go to the second to the last page, at the bottom. Agriculture and the Accession Clause. NAFTA's biggest agricultural impact may reside in the Accession Clause, which allows any country or group of countries to accede to the NAFTA if they comply with the conditions imposed for admittance. Little or no research has been done on the implications of liberalized agricultural trade with these other countries using Mexico as a pipeline to the United States and Canadian market.

Now, we will go to the conclusion. We appreciate that you are holding this hearing to better investigate the potential impacts of NAFTA. This NAFTA, based on the Dunkel text of the General Agreement on Tariffs and Trade, will eliminate the most effective farm programs in North America, both in Canada, the United States, and in Mexico, and it will prevent better programs from being enacted any time in the future. We will lose the only programs that have established supply management and reasonable prices for farmers if Section 22 provisions are converted to tariffs that will ultimately be eliminated.

Canada has a short-term reprieve in NAFTA, but will lose it under the Dunkel text. Mexican farmers will suffer the most as NAFTA, coupled with changes to the Mexican land tenure system, places an unprecedented burden on family farmers to enter the global food economy at a serious disadvantage.

And, may I make my final statements from the last two paragraphs of my cover page. The North American Free Trade Agreement has little to do with trade, free or otherwise, between the people of Canada, Mexico and the U.S.A. Rather, it will drive the citizens of these countries into senseless, self-destructive competition with each other for the lowest farm prices, lowest wages, lowest standards of living, and the lowest levels of food, environmental and consumer safety.

In reality, NAFTA is not about free trade but rather about the control of capital investments, control of labor and the supply of food. And opposition to NAFTA cannot and should not be called protectionist, but rather represents the need for expanded economic opportunity and reward for all North American people, not just the giant corporations, their major investors, and those who are poised to benefit from the exchange of goods, services and capital across borders.

NAFTA as it now stands must be rejected. President Clinton must initiate new negotiations for a truly fair, democratic and workable trade agreement for the entire hemisphere. Thank you very much.

The CHAIRMAN. We thank you very much, Mr. Rohland.

And, now, our final witness for the morning, who has waited patiently all through this, is Ms. Lori Wallach, who appears for the Trade Program of Public Citizen's Congress Watch, but whose testimony is endorsed by the Sierra Club, the Humane Society of the United States, the Public Interest Research Group, and Clean Water Action. Good morning, Ms. Wallach. We have 1 minute still of the morning.

STATEMENT OF LORI WALLACH, DIRECTOR, TRADE PROGRAM, PUBLIC CITIZEN'S CONGRESS WATCH, WASHINGTON, DC

Ms. WALLACH. Thank you for inviting me to testify. Public Citizen is an environmental and consumer advocacy group founded in 1971 by Ralph Nader. Public Citizen is also a member of the Citizen's Trade Campaign. That is a national coalition of 70 labor, family farm, environmental, consumer, civil rights, religious, and other citizens' groups who are now banded together to fight against this NAFTA.

As the Chairman mentioned, I am joined in my written testimony by the Sierra Club, the Humane Society, Public Interest Research Group, PIRG, and Clean Water Action. Those groups are among many environmental conservation and consumer groups who feel that the NAFTA, the side agreement on the environment, and the border documents taken together, if approved, would be worse than the currently regulatory status quo for environmental protection and consumer health and safety.

Joining us are other very large environmental and conservation groups. I bring up this point, because the whole issue of the split has been a hot one. As well as Greenpeace, the ASPCA, Citizen Action, big national groups, there are 300 State and local groups who consider this NAFTA not good for the environment. United, we have over 8 million members.

Now, why have we come to this conclusion? Our focus is actually on the terms of the NAFTA. And, at core, our concern is the numerous provisions in the NAFTA text itself that directly conflict or otherwise undermines existing international and domestic environmental, consumer health, and safety protections.

Basically, boiled way down, NAFTA's first chapter reiterates the general trade rules of GATT: no qualitative or quantitative import or export restrictions unless the trade agreement says you can. That is why it is 2,000 pages long, there are lots of exceptions.

Now, the problem is, many U.S.——

The CHAIRMAN. You look to have a much thumbed copy there. Can you say you have read all that?

Ms. WALLACH. It is embarrassing to admit, but I have.

The CHAIRMAN. Congratulations. You may be our first witness to have done so.

Ms. WALLACH. And several parts time and time again. It is a little bit of gobbledy-gook. You have to learn your NAFTAese and then you can read it.

The provisions that we are concerned about affect many U.S. consumer and environmental protections that use access to our market as their means of enforcement. So, for instance, we keep out of our U.S. market food that does not meet our pesticide standards, fish caught with drift nets. We, as well, limit export of raw logs in the Pacific northwest under several Federal and State laws.

NAFTA, at best, offers vague exceptions to some of those provisions that come into our market, but, largely does not protect them as it does certain commercial limitations.

In other chapters, NAFTA sets forth rules for trade on natural resources, energy procurement rules, and agricultural rules that we feel conflict with existing policies that we have all fought hard for in environmental protection, in consumer health, and safety.

NAFTA also establishes a tribunal system that other witnesses have discussed that allows one NAFTA country to bring another's laws before a tribunal of five trade officials who judge if they meet with the NAFTA rules.

If the law is found not to meet such rules, the United States must either stop enforcing it against imports, or pay fines, pay sanctions to keep the law. The thought of that happening to many existing U.S. environmental consumer and conservation programs is why these groups are very concerned about NAFTA.

Now, to some degree, President Clinton agreed with these problems, and, to that end, he started the supplemental negotiations. He thought President Bush's NAFTA was the old way of thinking about trade.

And you will see adjoined to my testimony two charts. Those charts lay out the issues that President Clinton raised in his NAFTA policy statements about fixes to NAFTA, and, as well, a consensus statement of 25 national environmental and consumer groups who laid out environmental, health, and safety problems that would result from the approval of this NAFTA tax.

Now, unfortunately, as those charts show, the majority of those issues simply were not addressed in the side agreements. So, our issue is about neutralizing this tax. We do not want the cover to turn green, we just do not want it to undermine existing laws.

What was focused on was enforcement of domestic environmental laws. What came out of the side agreements is a commission. Now, it could have been a good idea. The commission's main focus is cooperation in study discussion. That is certainly not a bad thing. But the commission was trumped as finally providing a mechanism for review of non-enforcement of domestic laws.

Now, unfortunately, the procedures that were put in place in this commission and its jurisdiction are so limited and so complicated that basically all it can do is through a very long process—I counted, 470 days from the initiation.

The CHAIRMAN. How many days?

Ms. WALLACH. 470 from the initiation of a complaint before a fine could set in for a very limited set of existing domestic environmental laws that are specifically defined and the repeated failure not to enforce them.

With my limited time, I would sum up the effectiveness of this mechanism by quoting the top Mexican negotiator, Jaime Serapuche. This was a statement that he made to the Mexican Congress on August 19th concerning the environmental agreements; many people have heard it.

Basically, he was trying to calm fears about sovereignty and environmental laws being shoved down the Mexican people's throats. He said, "The timeframe in the process makes it very improbable that the stage of sanctions could ever be reached."

So, with that as summing up what the commission actually creates and the fact that the environmental problems of the text were not dealt with, if I may have 1 more minute to describe a final problem, which is that of funding.

Now, certainly the border environment is a mess, and no one denies the status quo is not good. But our concern is that the NAFTA's investment rules, through a variety of different mechanisms, will increase investment in Mexico by U.S. companies without regulating their behavior, and, as well, without providing any new money to either clean up the existing mess or to deal with the added mess.

Now, when I say new money, it is a wonderful thing that has happened to NAFTA's debate, but there has been more focus on the border. But the bottom line is—and there are a variety of different options, a limited cross border tax—no mechanism was created to come up with new money.

So, it would be this committee and the Ways and Means Committee's situation in trying to dig up the money through the Budget Agreement before the vote for the environmental clean-up, for the Worker Adjustment Assistance Retraining, and, as well, tariff reductions. We are glad there has been focus on the border, but the new money is not there.

These problems, taken together, lead us to our conclusion, unfortunately, that this NAFTA package is worse than the status quo. And, hopefully, in questions I will be able to address the point of, yes, we do think it is reasonable and it is certainly possible to negotiate trade agreements between the three countries that would obtain the business goals that people are interested in, but, as well, make sure that our domestic, environmental and consumer laws are protected, and, generally, that there is financing to clean up environmental pollution in North America. Thank you.

[The prepared statement of Ms. Wallach appears in the appendix.]

The CHAIRMAN. Thank you, Ms. Wallach. And I do point out to all members of our committee that, for starters, we have to find $2.5 billion for the tariff reduction cost.

Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Ms. Wallach, you heard Mr. Krupp say unequivocally that, in his view as head of—what is his organization?

Ms. WALLACH. The Environmental Defense Fund.

The CHAIRMAN. The Environmental Defense Fund.

Senator BAUCUS. That is correct. That he believes that NAFTA is, clearly, a significant improvement over the status quo from an environmental point of view. I would just like to ask you why you disagree, particularly when he agreed with me that there are certain very precise, very definite gains in the environment.

One, is that it clarifies the present ambiguity over who has the burden of proof in GATT in challenging a country's environmental law. As you well know, currently, it is ambiguous at best as to who has the burden of proof. NAFTA clearly states it is the challenging country, whether it is the United States, Mexico, or Canada, that has the burden of proof in alleging that environmental statute is a barrier to trade. So, that is a definite plus for the environment.

Second, currently, in existing GATT provisions a higher State or local environmental standard can be challenged under GATT. That is, it is only the national environmental standards that are protected under the GATT, whereas, if a country in the GATT today has a State environmental standard or a local city or county environmental standard which is higher and more protective of the environment than national standards, it falls. Under the NAFTA, that is turned around so that a higher environmental standard, State or local, would not fall but would prevail.

Third, there is the side agreement. It is not perfect—nobody is saying that—but it is an environmental improvement because it, for the first time, provides that sanctions may be applied against a country that fails to enforce its environmental statutes.

And, as we all know, Mexico's environmental laws and standards are virtually the same as the United States. That is, Mexico, in about 1988, adopted U.S. environmental laws lock, stock and barrel. The problem is, they do not enforce it as well as we tend to enforce ours. NAFTA addresses that. It does not do this perfectly, but indefinitely does begin to address it.

So, in view of all those obvious pluses for the environment, I would like you to name one U.S. environmental provision which you think would be weakened as a consequence of NAFTA.

Ms. WALLACH. Well, there are a variety of differences. For instance, USTR has, off the record, listed a variety of wildlife conservation laws that are extra-territorial process based, based on how something is caught, like drift net type laws, which could find the same fate as the tuna/dolphin case did under GATT. NAFTA does not deal with that issue.

But, to address your specific points, the fact is that, under the standards provision of NAFTA, the burden of proof is the proof of the fact is reversed, which is a good advancement of NAFTA over GATT.

Senator BAUCUS. From an environmental perspective.

Ms. WALLACH. That is correct. But, the same sorts of tests about the level of protection and the means a measure can use to get to a level of protection that exist in the GATT are in the NAFTA.

So, the rules that you have to meet, the standards that you have to meet—it is good that the burden has flipped. For instance, an ambiguous amount of science, provision of risk assessment, a notion in NAFTA that lobbying not more trade restrictive than is necessary, a word which has a lot of GATT jurisprudence attached to it, those all exist. And the U.S. law that is higher than an international standard, for food, the standard of Codex Alimentarius, would still have to meet those tests.

Senator BAUCUS. Well, on that point, is that really accurate? That is, it is not the environmental standard which is subject to that language in the text, it is the means by which that standard is attained which is in question in the text.

That is, today, for example, Europe has a ban on U.S. beef exported from the United States into Europe, Europeans alleging that the growth hormones that the United States' industry uses is a health and safety problem in Europe.

Now, it is the means that is in question here, not the standard. That is, Europe is using the means of banning all beef shipments over which would be in question, but it is not the test.

Whereas, if Europe were to agree to a scientific test to see whether, in fact, it had environmental standards and the scientific test agreed that it is causing a health problem to Europeans, that would be fine. That would be permissible. So, what we are getting at is not the standard. The NAFTA text does not deal with the environmental standard. You mentioned the risk assessment provision.

Ms. WALLACH. The NAFTA text deals with both elements.

Senator BAUCUS. In fact——

Ms. WALLACH. The level of protection. To quote you an article——

Senator BAUCUS. Well, let me just finish.

The CHAIRMAN. Ms. Wallach, Senator Baucus is asking you a question.

Senator BAUCUS. Anyway, that is what the text says. And, beyond that, if there is an ambiguity—and let us assume your argument that there is an ambiguity—Ambassador Kantor has fully said that that is not his intent in negotiating. And, beyond that, in the implementing language we can make it clear that there is no ambiguity on that point.

So, let me ask this question. If we can clear up ambiguity, either by the Ambassador's statement or in implementing language, can't one conclude on a net basis that it is a net plus to the environment compared to the status quo?

Ms. WALLACH. We tried to have those provisions clarified. In fact, EDF and the coalition of groups with whom they have been working on NAFTA listed these same ambiguities in the language as something that concerned then.

I would say, our concerns were heightened when the administration's main argument about why we should not worry about this was that all the NAFTA parties in the negotiations had come to a common understanding of definitions that would, in fact, ensure our laws are protected.

Well, we said, that is wonderful, it is one thing you will not have to fight about in the supplemental negotiations; please just write down those definitions you all agree upon and put them in the supplemental document. That did not happen. That was where the fix needed to happen.

Now, I understand there is a white paper being written by USTR that explains the U.S. definition of what these terms mean, and it could get incorporated into enabling legislation. The problem is, that has no status in the jurisprudence of the tri-national panel set up under Chapter 20.

So, in fact, to answer your question, yes, it could have been fixed and that would have reduced one area of our concerns totally. However, the place was in the supplemental agreement and it did not get done.

On this issue of States that you have raised several times, the issue about State laws is not whether they are stronger than the national law, NAFTA and GATT allow them to be stronger than the national law.

Senator BAUCUS. GATT does not. NAFTA does, GATT does not.

Ms. WALLACH. But, under neither agreement is the lobbying stronger than national law. It is not a federalism question, it is whether or not the State law is stronger than the international standard laid out. And, if it is, it has to meet the same series of tests. Under NAFTA, protection of certain standards that meet those tests are specifically, as you noted, extended word for word to State and local laws.

The CHAIRMAN. Fine. Ms. Wallach, you have been arguing very ably. You must know, you are arguing against the Chairman of the Committee on Environment and Public Works and the Chairman of the Subcommittee on Trade.

Senator BAUCUS. She is doing very well.

The CHAIRMAN. You are doing very well. I wonder if you would be good enough to put down in writing your understanding of the—take a couple of days to think what Senator Baucus has asked you and give us an answer in writing?

Ms. WALLACH. It would be my pleasure, because Senator Baucus knows this issue in detail.

The CHAIRMAN. We would appreciate that.

[The information requested was not received at press time.]

The CHAIRMAN. Senator Bradley.

Senator BRADLEY. Thank you very much, Mr. Chairman. I do not want to go over this in great detail again, but could you tell me, what is the concern from which your view flows; the concern you just expressed to Senator Baucus, what is your worry?

Ms. WALLACH. Well, I would say, as a lawyer and an analyst looking at the language abstractly, there are provisions in the NAFTA that conflict with our existing laws and that, combined with the Chapter 20 dispute resolution, could have, as part of a trade challenge under NAFTA, legitimate environmental or consumer laws, State, local, or federal, either a required stop being enforced against imports, or the United States would have to pay a fine to maintain it.

Now, I would say that was a general concern, and we had that concern looking at the GATT text, the Uruguay round text. And then, in August 1991, it actually happened with the tuna/dolphin case where existing United States and environmental law was indeed held by a trade tribunal to conflict with GATT's rules.

Now, since then there have been a variety of different challenges; none of them have come to that final stage. Some of them have just been threatened and laws have quietly been withdrawn. We believe that you can, compatible with the general trade rules of non-discrimination in national treatment, set up tests that would not overpower legitimate existing domestic, environmental and consumer laws. We do not think NAFTA did that.

Senator BRADLEY. In the real world, your concern is what, that Mexico is going to try to undo our environmental laws?

Ms. WALLACH. Well, the challenge could come from any country. For instance——

Senator BRADLEY. But, under the NAFTA.

Ms. WALLACH. Right. But, as an example right now——

Senator BRADLEY. That is what this hearing is on.

Ms. WALLACH [continuing]. Canada, under the United States-Canada agreement has just challenged Puerto Rico's milk standards. Up until about 6 months ago, Puerto Rico had a standard that was lower than the U.S. Federal standard. They did not require Pasteurization, just ultra-high temperature milk, UHT. And Canada provides——

Senator BRADLEY. But, that is your concern. Your concern is that Mexico would file a——

Ms. WALLACH. Any NAFTA country. Right now, we have Canada or Mexico to pick from. If the record is to be——

Senator BRADLEY. Or Canada could file a clean air challenge. Is that——

Ms. WALLACH. Along the lines of the milk challenge that they are doing right now, for instance.

Senator BRADLEY. So, they could force us to do more on acid rain, or——

Ms. WALLACH. No. The concern we have is basically being to effectively control the U.S. market so as to enforce our laws. So, for instance, we have a variety of different standards.

There is one that is about to kick in under the Clean Air Act for post-harvest fumigants. They are fumigants of crops that dissolve. There is no residue left on the product. There is no product differentiation. It is a like product under trade jurisprudence. Yet, the procedure has environmental problems. It is an ozone-depleting chemical, the particular one I am speaking about. That is why it was phased out in the Clean Air Act.

If we, under our Clean Air Act, would say, I am sorry, but that Canadian wheat that was fumigated in that method cannot come into this country, under neither NAFTA nor GATT would we be allowed to limit trade in that way, while our law would be challenged. And a panel of trade officials, trade experts, lawyers, would rule if it was a conflict to the law. That one, pretty clearly, would——

Senator BRADLEY. No. But, I mean, people take actions for various reasons, right? So, is there a parallel between Canada taking an action against the United States, saying that we are not doing enough on acid rain, that our laws say such and such and we are not enforcing those laws versus Mexico saying that the NAFTA overrides certain environmental laws? Is there a parallel there?

Ms. WALLACH. The concept you are talking about is actually something people theorize about in a green trade future where you would consider that kind of behavior as a subsidy.

Senator BRADLEY. Right.

Ms. WALLACH. That is not even what we are talking about. We are just talking about safeguarding our existing laws from challenge, basically being able to effectively control our market.

Senator BRADLEY. So, Canada could challenge the Clean Air Act, under NAFTA, in your view.

Ms. WALLACH. In the case of this example I gave where the product, the wheat was kept out on the basis of process differentiation, yes, I suspect they could, and I think they could do it successfully.

Senator BRADLEY. Do you think NAFTA overrides GATT?

Ms. WALLACH. There is very specific language, both general and specific in that question. As a general matter, what NAFTA says is that, unless specifically stated otherwise—and, as well, GATT Article 25 makes that clear—GATT trumps. But there are very many places in NAFTA where NAFTA trumps. And, for instance, in the food safety standards, thank goodness, NAFTA trumps. In all the other product and environmental standards, GATT trumps.

Senator BRADLEY. So, Ross Perot is not right on that one, is he, the food safety standards?

Ms. WALLACH. NAFTA trumps on food safety standards.

Senator BRADLEY. All right.

Ms. WALLACH. I am not familiar with Mr. Perot's comments on that.

The CHAIRMAN. Thank you, Senator Bradley. May I note, so you will not wonder, we have our weekly party caucuses on Tuesday, and the Republican caucus begins earlier than the Democratic caucus, and, hence, we do not have the questions from that side that we might otherwise have. Senator Rockefeller.

Senator ROCKEFELLER. Thank you, Mr. Chairman. And I will try to be brief.

Obviously, I would address my questions to Karl Platt, whom I also had a chance to meet when I convened a meeting of business and labor in West Virginia to discuss NAFTA. You were very good then, and you were very good today.

West Virginia, now, has gone from 12.5 unemployment down to about 10 percent. And one would look at that and say, gee, that is great news. One out of every 10 people not working is not good news. So, I am obviously job sensitive.

Glassware, stemware, chinaware, apparel, all of which have a lot of jobs in West Virginia, would be deemed, I would guess, to be at risk if NAFTA were to go through. And, certainly, the folks that represent them say that is the case.

You used, in your own words, "craftsman who will, without question, be displaced." And then you go on to say, "value added items to ship low-end production to Mexico workers where it could be made more profitably." In other words, industry is saying, we are going to move.

Now, let me shift to draw you out. You also said some would say, some would stay. Health care is a very large industry in this country. We are being bombarded from all sides with different advocates of different parts of health care who say that if health care reform takes place they will go out of business, that everything will change, that quality will disappear, and certainly that they cannot reduce their costs to the extent that health reform would contemplate.

Yet, I note with interest that, in the first quarter of 1993, without a single act of intervention or even a miscue on the part of the Federal Government, that inflation in health care was cut in half. It went from 14 percent down to 7 percent in the first quarter. Extraordinary. Government did not do a thing.

Obviously, therefore, industry was contemplating the prospects of health care reform and was able, within its own jurisdiction, within its own set of decisionmaking rights in the private sector, decided to do, in fact, what they have been saying they cannot do.

Incidentally, Alan Greenspan told me that trend is beginning to edge back upwards again, but it is still a very interesting point.

So, what I would need to ask you is, you say that you will have to move, or parts of you will have to move. Phillips Lighting in Fairmont, WV, has already moved. This had nothing to do with NAFTA, it is part of their business decisionmaking.

Can you, if you are willing and I am not invading your privacy, separate yourself from the hidden skepticism behind my question and describe, in terms of the bottom line math involved, why it is that, without question, jobs would have to move to Mexico?

Mr. PLATT. I would be pleased to do that, Senator. My business, forming and finishing glass at the fire by hand has not changed at all since the Senate of the Ptolemy's ruled. This business has been mature for 2,000, 3,000 years.

The CHAIRMAN. Nice point.

Mr. PLATT. However I make glass is the same way that somebody in Mexico makes glass. We melt it, we get it out, we blow it, we shape it, we do whatever. It is done by hand. And where the advantages come in have more to do with issues we have no control over. I mean, we pay what we pay because we have to. We have our legislated overhead, et cetera, et cetera. There are a lot of differences on that plane.

Moreover, I will point out that energy costs in Mexico are determined by Pemex, which is all hands-off in the NAFTA. That is another point of concern of mine, simply because we are playing business here, and we are playing hard ball business, what precludes Pemex from low-balling energy costs to the point where all sorts of people go over, and then raising it back up after they have had their way? I do not feel that that should have been left off the table.

Be that as it may, the nominal efficiency of the enterprise has not changed at all. And, subsequently, factors that really have nothing to do with the way the work gets done preside over determining the cost.

In the case of glassware, we are looking at about 40 percent in direct labor—40–45 percent, depending on what it is. Some of those pieces, of which, of course, you have seen many, can only be made here because we have developed the skill and competence to be able to render that by hand. May I finish, Senator?

The CHAIRMAN. Oh. Please do.

Mr. PLATT. All right. On the contrary, we also make things like candle holders. We just plop glass in a mold and squish it, and it is done. So, why should I not have some of my acquaintances in Mexico make those under the firm's name and bring them back up?

In our case, in particular, we have a blend of high- and low-value added items, and any decrease in the work force, of course, comes through attrition. Now, Phillips Lighting is one thing, but then we have got to look at—and I should not name names, but there are lighting ware plants, some very nearby the Blenko facility, that have had it.

I mean, they just simply cannot make this—if somebody needs a white bulb, it is a matter of, how many white bulbs do you have to make in an hour to cover the bills? If you can make 10 in Mexico and you have got to make 50 here, well, why not make the 50 in Mexico and put the money you would make on the other 40 in your pocket and proceed on? I hope that answers your question.

Senator ROCKEFELLER. It does. You would be then, quite certain of what you would have to do.

Mr. PLATT. Oh, yes.

Senator ROCKEFELLER. All right. Thank you, Karl, very much. And, Mr. Chairman, thank you for your indulgence.

The CHAIRMAN. Thank you, sir. I note the point that Mr. Platt makes, which is that the fact is, Mexico enjoys absolute rather than comparative advantages in this sector, which is a very clear point. Mind you, there would be other sectors in which this would not be the case, but you are speaking for yours.

Mr. PLATT. Yes. Such as the electronics business.

The CHAIRMAN. Such as the electronics business. We heard from that. But we are going to have to be brief, because our party caucus begins in a few minutes, and it is our rule not to go over.

I would like to ask Mr. Hubner, or, rather, say to Mr. Hubner that I thought your suggestion that factory production and manufacturing has moved from Canada to the United States in consequence of a discernible 10 percent wage differential was a very powerful thought, and I do not think we know enough about it, into the Buffalo area, for example.

This is the view of the—you are speaking on behalf of the U.S. Business and Industrial Council. Have you picked this up? You think this is something that has been established, that the wage differential brought about a shift in location?

Mr. HUBNER. Oh. I cannot think of anything else, Senator, that would have done it. Everything else, pretty much——

The CHAIRMAN. The weather is better in Buffalo than in some places in Canada.

Mr. HUBNER. Most of the other features of society are the same just across the border.

The CHAIRMAN. Sure.

Mr. HUBNER. The only difference, really, is the wages. And the wages, the differential, as I stated, is roughly about 10 percent, which is really infinitesimal when one compares the wage difference between our Nation now and Mexico——

The CHAIRMAN. Yes.

Mr. HUBNER [continuing]. Which is about 10 times difference. $2.30 an hour.

The CHAIRMAN. This is something this Senator certainly wants to know more about. Well, thank you for bringing it up.

Mr. Rohland, I thought yours was a very—Senator Packwood commented on how strongly your feelings about social justice were, and it seems to me you were speaking as much for the family farmers in Mexico as you were for those in the United States.

Mr. ROHLAND. That is right. With our organization, National Family Farm Coalition, in our alliances and coalitions with other farm organizations in Europe, Canada, and in Mexico, our concern is with them as well as with our own economic and social base.

The CHAIRMAN. If it were not for progress, we would all be on the farm today, as it were, or scratching a hillside with pointed sticks. And Mexican agriculture has not been far from that until very recently. But the idea that those Mexican farmers, on four hectares of corn, are going to be able to compete with Iowa does not strike me as very probable, does it?

Mr. ROHLAND. I agree with you.

The CHAIRMAN. As I said, when Kansas wheat reached East Prussia, the Junkers were no more. I mean, it was just not equal, and a huge population dislocation took place. Sometimes it is for the better.

But, on that note, I see the clock. I am under obligation to call the hearing to a close. I want to thank you all very much.

I want to assure Ms. Wallach that she was arguing before a sometime, and no doubt future member of the Supreme Court, or a formidable lawyer, at the very least. We are going to get those papers from you.

We thank you for your testimony. It has been very helpful, very moderate, and firm. With that, we close.

[Whereupon, at 12:30 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF SENATOR MAX BAUCUS

I'd like to thank the chairman for scheduling this hearing on the labor aspects of NAFTA. I believe it is very important that we debate NAFTA's potential impact on American jobs and North American workers.

The debate on the NAFTA to this point has been long on exaggeration and distortion and short on facts, But nothing has made me more personally angry than those who hold up pictures of Mexican workers laboring in squalor and use it as a reason to oppose the NAFTA. Those pictures represent the state of affairs in Mexico today.

But after NAFTA and its side agreement are in place the situation of those workers will improve markedly. Despite all the distortions, there can be little doubt working people—in the U.S. and Mexico—will benefit from the NAFTA.

The economic evidence is overwhelming that the NAFTA will create jobs and economic prosperity in the U.S. and Mexico. By removing Mexico's barriers to U.S. imports, studies show that NAFTA will create between 95,000 to 200,000 net new jobs in America.

Almost every single study published on NAFTA concludes the agreement will result in a net gain of jobs in the U.S. Every living American nobel prize winning economist recently wrote to President Clinton endorsing the NAFTA as a job creator.

Now, in some sectors, jobs may be lost. But far more jobs will be created in other sectors. And in sectors where jobs may be lost, the Clinton Administration has embarked on a bold plan to set up one-stop worker retraining centers to improve skills and help those workers find new employment.

In Mexico, NAFTA will directly improve working conditions and give the U.S. the tools to combat some of the problems that exist now in Mexico. Like many in this room, I travelled to the U.S.-Mexican border region and witnessed first-hand the squalid conditions there. I saw families of 10 living on the meager paychecks of their young children, workers living in fear of losing their jobs, and unsafe working conditions. It was a real eye-opening experience.

But my trip to Mexico did not make me want to reject NAFTA. But just the opposite. Because NAFTA, with the Clinton Administration's side agreements, represents the only chance to change the status quo and give those workers a better life.

The labor side agreement will force Mexico to enforce its child labor, minimum wage, health and safety laws. And the agreement contains teeth—fines and trade sanctions to use of Mexico doesn't enforce these laws. Right now, we are powerless against such violations.

I believe the crux of the debate on this agreement is whether NAFTA improves the status quo—for the U.S. and for Mexico and for U.S. and Mexican working people. And when you look at the facts, clearly the answer is yes.

Don't believe the crocodile tears of the critics. They want to make a political point. They care little about poverty in Mexico. The NAFTA is a step forward for all the people of North America.

Thank you.

Prepared Statement of Lloyd Bentsen

Mr. Chairman, members of the committee. I'm delighted to have the opportunity this morning to give the committee an overview of the North American Free Trade Agreement.

NAFTA is about jobs for Americans—creating jobs and protecting jobs. And while NAFTA at its core is a trade agreement, it also creates an alliance that will produce prosperity. By establishing a $6.5 trillion market with 370 million people, the largest in the world, we provide the opportunity for trade to create jobs—high paying jobs—and provide a higher standard of living, for all Americans.

This isn't a theoretical exercise for me. This face looks lived in because it's lived a good many years in the bright sun of the U.S.-Mexican border. I learned some good sense about Mexico, and about trade, and about what they both mean to the United States. I've seen good deals with Mexico, and bad deals. This is a good deal. Let me tell you why.

First, NAFTA will generate 200,000 higher paying U.S. jobs in the next two years alone. For that reason, it is an integral part of our domestic economic agenda. Likewise, it is an important part of our international agenda to promote more job-creating exports. In addition, it is a significant step on the path to opening foreign markets, to trade reciprocity, and to creating even more jobs for Americans with agreements such as the Uruguay Round and what we expect will come from our negotiations with Japan.

If we've learned anything from the past half century of trade history, it's that removing trade barriers is the way to build healthy, prosperous and growing economies. Trade is a way of life for us. One job in every eight in the United States depends directly on trade. Trade keeps us competitive and makes our economy vibrant. It makes our economy grow. That's why I scratch my head in disbelief every time I hear someone talk about passing up important opportunities to increase exports and missing chances to open markets.

I don't know a time when fewer exports meant more jobs for Americans. I can't recall when less trade meant more prosperity.

Too often, trade is a one-way street. We buy someone else's goods, but we can't sell to them. NAFTA reverses that trend. Mexico is adopting the principles of open markets to make its economy an equal player in the global arena. They have signed on to the trade bandwagon. You only have to look at what's happened since 1986 to see the importance to us of a reduction in Mexico's trade barriers—even if the reductions so far still have Mexico with barriers over twice as high as ours.

The trade figures are impressive. We've gone from a deficit of nearly $6 billion in 1986 to a surplus of over $5 billion on $40 billion in export business last year. When Mexico started bringing down its trade barriers in 1986, we had fewer than 300,000 Americans working in jobs depending on the Mexican export market. Since then, and even though there's still a sharp difference in our tariffs today, more than 400,000 new jobs have been created, and they're higher paying ones. Now, 700,000 Americans depend on trade with Mexico for their jobs.

And things are going to get even better with NAFTA. We calculate that we'll pick up 200,000 more jobs in the next two years alone, and jobs related to trade with Mexico pay about 12 percent better than average. And as for exports, we believe they will rise another $10 billion over the next three years with NAFTA.

This agreement is clearly good for America, and it's clearly good for American workers. We're getting a deal here.

Mexico's barriers to our goods have been coming down, but with this last step, Mexico is dropping tariffs that are 2½ times what ours are. Now they've got the advantage. NAFTA will level a sharply tilted playing field. In short, we're giving up very little, and we're getting quite a lot.

And, let's not forget these tariffs that are coming down are only on our goods and Canada's goods, not for Japan's or the EC's.

Let me give you a quick case in point. From day one, an American automobile will be 8 percent cheaper in Mexico City than it is today. Over the long run, our cars will be 17 percent cheaper. That's a powerful incentive to buy a U.S.-built car. And by the way, there's a tremendous market there because half of all cars there are over 10 years old and only one person in 16 in Mexico owns a car now. Do you know how many Ford Taurus' and Saturns we exported to Mexico last year—absolutely none. But the best forecast around right now says sales of U.S.-made cars are going to leap from 1,000 a year to 60,000 a year in the first year alone. It will take the Big Three four years to export that many cars to Japan.

And, it's not just tariffs that are coming down. Mexico is getting rid of some very restrictive rules about auto import quotas. There is such a web of rules on autos that, for instance, it makes virtually no sense, for instance, for Chrysler to try to sell Jeeps in Mexico. They sold all of five last year. Those rules will be taken off the books, not to mention trade balancing regulations, local content rules and restrictions on our financial services industry. On top of that, we get intellectual property protection.

Sector by sector NAFTA's success story is going to be the same. It's true for consumer goods, for farm products, for chemicals and pharmaceuticals, and for machine tools and telecommunications. Nearly every segment of our economy will feel some benefit from NAFTA.

Why would Mexico agree to such a deal? Mexico realizes that its consumers have been the losers of past protectionist policies. And, Mexico sees NAFTA as an important step toward preparing its economy for the next century. They want to be able to attract investment that otherwise might be going to Eastern Europe or Asia. For them, this is the road toward development and prosperity. For us, it's the road to more jobs, better paying jobs, and a bigger market and prosperity.

How will this create jobs in the United States? Mexico will lower its barriers to our goods, and Mexicans don't just like American goods, they love American goods. Mexico buys 70 percent of its imports from the United States. Consumer goods are the fastest rising component of our trade there. Mexico spends more with us on a per capita basis, than do the more affluent Europeans or Japanese. ($450)

Walking away from demand like that, ignoring a market like that, makes as much sense as locking the doors to the store with a crowd of customers outside waving handsful of money. I was in business for 16 years, and I don't know any businessman who does well by refusing to do business.

One of the important aspects of NAFTA is that it will do more for immigration control than putting the 1st Armored Division, the 82nd, the 101st, and all the rest down on the border. We've got 2,000 miles of border and all the soldiers in the Army couldn't do what NAFTA will do. NAFTA will let Mexicans earn a higher standard of living, at better paying jobs, and give them better homes and a better environment. NAFTA will go a long way toward eliminating the lure of the United States to Mexican citizens.

There are some powerful arguments for NAFTA, but there is also a myth I want to knock down. A friend of mine from Texas talks about hearing a sucking sound of jobs headed south. I think he has a hearing problem. What is rushing south already is billions of dollars in products made by American workers. I'm not the only one who believes NAFTA will mean more jobs for Americans and more exports to Mexico. Private forecasters, the nation's governors, Nobel Prize-winning economists, the Congressional Budget Office and the General Accounting Office all agree with that.

There's nothing stopping jobs from moving to Mexico now, or Malaysia, or Hungary, or any place else where wages are lower. If low wages were the sole criteria for where to locate, Sri Lanka would be an industrial giant and Germany and Japan would be dwarfs. Jobs have stayed in the United States—115 million of them. They stay not because we have import barriers, but because of the productivity of American workers—the most productive worker in the world—and because of the competitiveness of American business.

With NAFTA, it's a real good bet that a new factory built in Mexico will be built with U.S. construction materials, and the assembly lines will have our machines and tools on them. That will save American jobs. And when that factory is up and running, it's workers are going to be more likely to buy our goods, and create jobs here.

I know those who use the job argument, like my friends in the labor movement and my close friends on the committee, are sincere. But I also believe they are mistaken.

No one will deny there will be dislocations. Even if you use the highest estimates, at most one worker in 300 who leaves their job in the next 10 years will leave because of the effects of NAFTA. Meanwhile, more people will be getting jobs because of NAFTA. Americans will be trading lower-wage jobs for higher-paying ones than will be leaving jobs because of layoffs or lower wages. NAFTA is a net creator of jobs for Americans.

And, there's a myth that fragile U.S. industries will be further endangered by NAFTA. But that claim ignores the fact that some very important provisions have been built in to NAFTA to protect them. What you don't hear is that NAFTA has transition periods of up to 15 years for bringing down our tariffs and other barriers in areas where we have industries sensitive to competition and trade with Mexico, such as footwear and household glassware. That gives us time to adjust. They don't tell you that NAFTA has a mechanism to reinstate our tariffs in case of a surge in imports. They don't tell you that we retain our penalties for dumping, or that

NAFTA's rules of origin will keep products from non-NAFTA countries from getting the preferential treatment.

The basic part of this agreement was negotiated under President Bush. Last year, President Clinton, or candidate Clinton rather, said he thought NAFTA ought to have beefed up protections, and we have done just that. President Clinton has made NAFTA better for American workers. And President Clinton has made this agreement far better for the environment along the border.

Let me make something quite clear. This administration is committed to an innovative and comprehensive program of retraining and other assistance to help any American who is hurt by NAFTA. Secretary Reich is a strong advocate of NAFTA, and he takes his charge to assist American workers seriously. This administration intends to make it possible for those workers who are affected by it to be able to find a new, better-paying job. We want everyone to share in the benefits of NAFTA.

NAFTA is a good deal also because it is the "greenest" trade agreement ever reached. I grew up on the border and I know just how important this is. Hundreds of thousands of households on both sides of the border do not have adequate drinking water facilities, or wastewater treatment plants, or municipal solid waste disposal systems. Untreated sewage from Mexico goes into our boundary waters, and that affects costs for citizens in Arizona, California and Texas. We want to do something about that, and we're committed to an aggressive new program to resolve these problems over the next decade. Let's be clear on this. NAFTA didn't create the environmental problems. But NAFTA will make a significant contribution to the solution to environmental problems in that part of the country.

The cost will be about $8 billion for taking care of wastewater treatment, drinking water and municipal solid waste. We're in negotiations with Mexico on ways to solve these problems. We're proposing a new joint Border Environment Administration (BEA) that will involve local people in tackling these problems. The cost of environmental cleanup will be shared with Mexico. We want to maximize direct private funding to meet this need.

We also want to create a Border Environment Financing Facility to leverage federal funds by borrowing in private capital markets. We expect it to lend, or guarantee, $2 billion or more. The additional yearly budget cost will be minuscule. This approach borrows important concepts from a number of congressional proposals.

While we are focussing our efforts on the most critical border environmental infrastructure needs, the Border Environmental Administration and the Funding Facility could play a role in dealing with other infrastructure problems if both governments agreed in the future.

We believe we have a proposal for environmental cleanup that meets the key concerns for the environment and the environmental community recognizes this agreement is good for the environment. Environmental groups with 7.5 million members have announced their support for the NAFTA package, including its side agreements, and the proposed border environmental cleanup program.

The Administration believes that the implementation of NAFTA will significantly increase U.S. exports and thereby expand the U.S. economy. A growing economy will lead to additional revenues for the federal government under existing tax laws, helping to reduce the deficit. Based on economic studies of NAFTA's effects, additional federal revenues could be as $10 billion per year by 1998.

Under the Budget Enforcement Act, however, the macroeconomic effects of NAFTA or any other trade agreement on federal revenues do not count for budget scorekeeping purposes. The Budget Enforcement Act was designed to provide a safeguard against assuming for certain that indirect macroeconomic effects of legislative changes will pay for direct deficit-increasing changes. The Budget Enforcement Act insists that any deficit-increasing changes be directly offset. The indirect effects will then go entirely to reducing the deficit.

Deficit increases must be fully offset, no matter how small. For example, the small amount of revenue losses arising from the reduction in tariffs under NAFTA must be directly offset under budget scorekeeping rules. These losses are estimated at about $200 million in the first year and an average of $500 million a year over the next five years. Even though this amounts to a mere four ten-thousandths of all revenue collected by the federal government per year, these amounts must be fully offset.

As noted earlier, there will be minuscule additional yearly costs to the federal government for border environmental cleanup. The administration intends that each of these costs be fully offset. As part of the cooperative process of developing the legislation to implement NAFTA, the administration will work with the Congress over the coming weeks to develop appropriate offsets to ensure that none of these minimal budgetary effects increases the federal budget deficit.

In closing, failing to adopt NAFTA will leave Mexico able to jack its trade barriers right back up to where they were before liberalization began. Not only will that wipe out any hope of providing good-paying jobs to 200,000 Americans in the immediate future, it will put the 400,000 we've seen created in the past few years in serious jeopardy. Failure to adopt NAFTA means we won't get the important gains we've made in border environmental conditions nailed down and start doing something about those problems. It means the gains in the labor side agreement and in the environmental side agreement won't go into effect. In short, the cost of failure is significant, and the benefits make NAFTA well worth it.

NAFTA is good for the U.S. economy, it is good international economic policy, and it is good national security policy. Either we ride the wave of economic change, and use our ingenuity and enterprise to create new productive jobs, with better wages, or we accept the loss of jobs and markets, and isolation from the world economy as the price of refusing to deal with change.

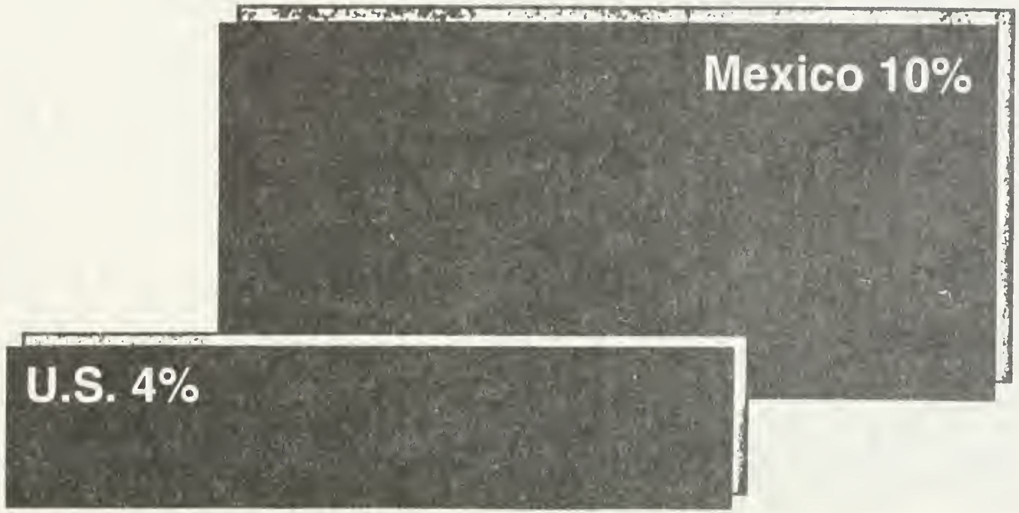
America is a proud, young and confident nation. We have never been afraid to face the future, and now is not the time to begin.

I remember that 31 years ago President Kennedy proposed a trade bill that lowered tariffs, just like NAFTA. It passed with strong bipartisan support. Now comes NAFTA, launched by President Bush, and significantly improved upon by President Clinton. I am convinced that a bipartisan and forward-looking Congress will see that NAFTA is good for America and good for the American worker. No vote Congress will take in the next six months will create 200,000 jobs like NAFTA will.

Thank you.

Chart 1

Mexico's Average Tariff Barriers Against U.S. Exports are 2.5 Times Higher than Equivalent U.S. Tariff Barriers Against Imports from Mexico



PREPARED STATEMENT OF ALBERT C. BLACK, JR.

Testimonial Summary

The gradual elimination of trade barriers that exist between the United States, Mexico, and Canada is essential to the planning, development and success of a North American regional economy that must be created to enable businesses in this region to compete successfully on a global basis.

The proposed North American Free Trade Agreement (NAFTA) is an opportunity for the United States to position itself and become the primary beneficiary in a strategic response to the European Community's planned economy and the fierce competitiveness of the Pacific Rim countries. Over the years companies in the United States have watched governments in Europe and Asia create and develop synergistic trade agreements that have strengthened their ability to win world market share. NAFTA is the assistance that American companies, large and small need to assume a better role in the world economy. Small and minority business owners across the U.S. should relish in the thought of unrestricted trade in Mexico and Canada. NAFTA enable small and minority business to access markets that large corporations can access without such an agreement. Because of the vast resources of major corporations, markets can be entered throughout the world. The small and minority enterprise can not afford to remove these barriers. The resources that large corporations are using to circumvent these barriers should be channeled to more productive activities.

While developing a more advantageous position for U.S. companies NAFTA could serve as one of the most humanitarian agreements ever. Free trade with Mexico will improve the standard of living for millions of Mexican citizens that have been victims of an under stimulated economy. I am suggesting that trade, not aid should be the objective of the United States. History tells us we will eventually be involved in one or the other. Business and economic development in Mexico will also work to improve the economies and standard of living of U.S. citizens living in border towns. Poverty, health care, education and crime can be positively addressed by eliminating trade barriers that prevent U.S. capitalism from taking root and producing a higher standard of living for more of Mexico's citizens. A stronger economy will also result in a more stabilized government. As neighbors we have to be concerned with the stability of the Mexican government.

Minority Business Opportunities

One of the key measurements of any economy is its ability to export. If the African American and other ethnic minority economies in the United States are ever to grow, develop, and produce more real and lasting wealth among a broader range of entrepreneurs we will have to actively pursue a role in the global economy. Being involved in a regional economy is a positive and assuring first step. Across the country African Americans and other ethnic minorities are becoming more concerned with NAFTA. I am confident that as we discuss and debate the issues, the benefits of NAFTA will be crystallized. There is a tremendous amount of opportunity for the assertive company. We plan on being a part of the construction of the buildings, highways, roads, bridges and airports that will be needed to facilitate the trade that will result from NAFTA. We plan on providing goods and services to Mexican and Canadian citizens and governments.

And one of the most encouraging aspects of NAFTA is that as our current corporate clients pursue open markets, we will continue to serve them in newly established venues.

Education and Technical Training

Most of us can agree that the current education and training of most U.S. students and employees is less than what the global economy requires. NAFTA, as is creates more international opportunities, will enable our public and private schools as well as the country's industrial trainers to understand clearly what it is to participate in a regional and world economy.

A greater demand for more technical and international training will cause a greater supply. Businesses will insist on a more skilled work force. Because of NAFTA we have a greater opportunity to re-engineer our educational and training systems to reflect a more productive, efficient, and properly suited economy. Our labor force will have the opportunity to be retrained to provide the skills and services the new economy will need.

PREPARED STATEMENT OF RANDY CRUISE

Mr. Chairman and members of the committee, I am Randy Cruise, a corn farmer from Pleasanton, Nebraska and the President of the National Corn Growers Association. I am also a spokesman for Ag for NAFTA, a coalition of more than 150 farm organizations, businesses and related groups. Ag for NAFTA represents the vast majority of American farmers. I appreciate being asked to testify before the Senate Finance Committee.

The North American Free Trade Agreement comes at a critical time for American agriculture. We are fighting for our export markets which, in many cases including corn have dropped significantly in recent years. The European Community continues to distort world trade by encouraging the overproduction of commodities and dumping those surpluses on world markets, not only robbing us of our customers but lowering our prices as well. In addition, trade is restricted by European Community member states, Asian nations and even Mexico through tariff and non-tariff barriers. The former Soviet Union has gone from our best cash customer to one that's hanging on by its fingernails. We are seeing our exports continue to spiral down and we must stop that trend. NAFTA is a rallying point for mounting a new export offensive.

As all of you are aware, rural America is suffering from chronic unemployment in a continued sluggish economy. We see boarded-up storefronts, schools and hospitals unable to afford supplies and rural residents moving to cities in hope of employment. While the plight of our cities gets most of the attention in the news, we in rural America need help too. We do not want handouts, but we need better prices for our commodities so we can afford to buy goods, and we must have more rural jobs. NAFTA can help achieve both of these basic needs.

There is a lot of anti-NAFTA rhetoric being tossed around in the countryside. Many statements are, at best, distortions; at worst, many are flat-out deceptions. It is unfortunate that some leaders of the opposition are resorting to scare tactics. I would be much more comfortable if this debate was based on facts and not fear. For example, many NAFTA opponents state repeatedly that DDT is legal in Mexico and will thus contaminate food exported to the U.S. Well, this is deceiving because while DDT is used in Mexico, it is for a very specific and limited purpose: to fight mosquitoes carrying malaria in the southern part of the country. There are many other examples of tortured logic and falsehood regarding NAFTA. At the same time, we acknowledge many Americans are sincerely nervous about the ramifications of this agreement and they have every right to raise questions. But, I believe the accord is sound. Coupled with the side agreements, NAFTA is a truly historic and valuable trade deal.

Mexico has gone from being a closed economy in 1986 to one that is opening further and further. With this agreement, it will engage in totally free trade with Canada and the United States in fifteen years. The United States went from a $5.7 billion trade deficit with Mexico to a $5.7 billion trade surplus since the mid-1980's. This change in trade patterns has created employment in the United States, with some 700,000 jobs directly related to exports to Mexico. Not only will NAFTA lock in this trade situation, protecting these 700,000 jobs, but it will also lay the groundwork that will continue the growth of the United States exports to this dynamic market. U.S. agricultural sales to Mexico have grown from $1.4 billion in the middle of the last decade to about $4.0 billion in 1992. Mexico's population, currently at 90 million people, is growing by 2% a year. These people want a better and more stable food supply and the U.S. is poised to answer their call. USDA projects that at the end of the 15 year transition, agricultural sales to Mexico will increase by $2 billion to $5 billion. We simply cannot afford to turn our back on a potential $6.5 billion market.

We desperately need jobs in rural America. NAFTA will help achieve this goal. Mexico is a tremendous market for value-added goods. The National Corn Growers Association has been a leader in promoting the export of value-added agricultural products. Our nation has allowed the European Community to dominate value-added exports and this must stop. Increased demand for value-added goods means construction jobs to build more processing plants, jobs to process our raw products, jobs to export those value-added products and higher prices for farmers' commodities. Passage of NAFTA will protect those jobs already here as a result of trade with Mexico, and it will create new jobs in rural America.

From the perspective of the U.S. corn grower, Mexico has been a steady market until recently. In the 1989-1991 period, Mexico averaged buying 2.6 million metric tons of corn per year. The 1985-1992 average would be around 2.4 million tons. In the 1989-1990 marketing year Mexico had a bad crop and imported 4.6 million tons. Mexico subsequently increased its corn subsidies, resulting in more production that began a downtrend in corn imports. In the 1990-1991 marketing year, Mexico imported 1.8 million tons and last year just under 1 million. As a result, Mexico -- frequently the number two or three export customer for U.S. corn -- fell out of the top ten. Given the current uncertainties with our export market, the United States needs a positive turn around with our southern neighbor.

Mexico choked off our shipments of corn through an export licensing program. The removal of this barrier was absolutely necessary for us to deem the NAFTA negotiations are a success. The pact before us today would eliminate the export licensing program and replace it with a tariff-rate quota. The initial annual level of duty-free imports would be 2.5 million tons with a compounded growth rate of 3% per year for 15 years. At the end of that period all trade in corn would be unhindered. While one would always hope for immediate free trade when it is of benefit, or for a higher tariff-rate quota, the level negotiated is certainly a substantial improvement over the recent trend. The 2.5 million ton base level would place Mexico back among the top five importers of U.S. corn.

The good news for American corn farmers does not end with more sales of our raw product. Meat exports will also increase dramatically under NAFTA. In the beef industry alone, industry revenues will increase by $200 million to $400 million annually under NAFTA. The poultry and pork industries have seen their exports to Mexico rise over the last several years and those trends will continue with NAFTA. Simply put, we need the Mexican market for value-added farm products.

Most of the discussion of NAFTA has been focused on Mexico, but we cannot forget Canada the other major partner in this three-country union: Canada. Despite its relatively low population of 27 million people, Canada is a major power in world trade as the seventh largest free-world economy. Canada is the number one customer for U.S. high-value exports and is the destination of almost 10% of all our agricultural exports. NCGA opposed the U.S.-Canada Free Trade Agreement because it institutionalized the countervailing duty on U.S. corn. A few years later, the General Agreement on Tariffs and Trade ruled in our favor and Canada adhered to the finding. I mention this to illustrate the fact that NCGA does not take these agreements lightly and will fight to assure U.S. interests are protected. We welcomed Canada's entrance into these talks and are excited about the inclusion of our neighbor to the north in the North American Free Trade Agreement.

Creation of the world's largest and richest free trade zone is, in and of itself, good policy. Also, unfortunately, we need NAFTA as insurance against the failure of the Uruguay Round of the GATT. As all of you are painfully aware, GATT continues to be delayed, allowing the European Community continue to dump agricultural products on the world market and lower our prices here in the United States. While I hope the Europeans will begin to negotiate in good faith, I am not willing to bet on that occurring. Therefore, we need NAFTA. We should aggressively move forward in bilateral discussions to build an atmosphere of free trade here in our own hemisphere. The United States is the among the most competitive producers of agricultural products in the world given a level playing field, and trade pacts such as NAFTA will help level that field.

Of course, there are many other reasons one should support NAFTA, involving foreign policy, illegal immigration, environmental practices and more. I will leave those subjects to others. However, I do feel strongly that this agreement is something we need to help turn around our farm exports, spur on the Uruguay Round, increase prices for our farmers and create new jobs for our constituents in rural America.

President Clinton said it best about NAFTA earlier this month: "It's a good deal, and we ought to take it."

Thank you.

PREPARED STATEMENT OF WARREN CHRISTOPHER

Chairman Moynihan, Members of the Committee: I want to thank you for giving Secretary Bentsen, Ambassador Kantor, and me the opportunity to discuss with you the benefits of the North American Free Trade Agreement.

I believe that this agreement between the United States, Canada and Mexico deserves approval on its economic merits alone—especially now that it has been improved by the side agreements on the environment and labor that the President signed yesterday. It gives our exporters the opportunity to sell without barriers in what will be the world's largest free trade area—comprising about 370 million people. It will lock in—and increase—the advantages that have boosted our exports to Mexico more than 200 percent since 1986, creating 400,000 jobs in this country in the process. It will create even more high-wage, high-skill American jobs, and enhance our ability to compete globally.

Secretary Bentsen and Ambassador Kantor will make this case in greater detail. I would like to focus instead on what NAFTA means for our relations with Mexico and with the Western Hemisphere more generally. I firmly believe that the foreign policy implications of NAFTA make an already compelling economic case even stronger.

A central insight of this Administration is the need to reinforce the link between domestic and international economic growth. In his first year in office, President Clinton has translated that insight into several important initiatives: a credible deficit reduction package; a new framework for our economic and trade relations with Japan; the promotion of a New Pacific Community; and a successful conclusion to the Uruguay Round negotiations. NAFTA is a vital element in America's competitive strategy to make us stronger at home and abroad—and it is a key test of our global economic leadership.

American foreign policy begins with our neighbors, Canada and Mexico. We have had a successful Free Trade Agreement with Canada since 1989. As a result, bilateral trade and investment between the United States and Canada have increased. NAFTA will complement and improve the current Free Trade Agreement between the U.S. and Canada, just as it will complement and improve our cooperation with Canada on environmental issues.

For Mexico, too, NAFTA is about far more than tariffs and trade. It is the symbol of a new relationship and a new structure of cooperation with the United States and Canada. It is a turning point in the history of relations among our countries. And it is a turning point that is in the overriding national interest of the United States.

Today, U.S.-Mexican relations are characterized not by distrust, but by the pragmatic pursuit of cooperation that benefits the people of both nations. In less than a generation, Mexican attitudes toward the United States and the world have been transformed. NAFTA will reinforce Mexico's unprecedented efforts to open its economy and reform its political institutions—including the judiciary and the electoral system.

Under President Salinas leadership, Mexico has stabilized its economy, climbed out of much of its debt, renewed growth, privatized industries, welcomed foreign investment, and cut its tariffs unilaterally by 90 percent from their 1986 levels. Mexico is America's fastest growing major export market—and we have a vital stake in its further growth and openness.

By stimulating growth, NAFTA will also increase Mexico's capacity to cooperate with us on a wide range of important issues that spill across our 2,000-mile border. A stronger, more prosperous Mexico will have greater resources to address these cross-border problems that affect so many Americans.

Let me briefly address three of them: narcotics, illegal immigration, and the environment.

Mexico recognizes that illegal narcotics is a shared problem that can be solved only through close cross-border cooperation. President Salinas has tripled Mexico's counter-narcotics budget and has shown the resolve to attack corrupt government officials and drug barons. Some of Mexico's most notorious drug traffickers are now in prison. This is breakthrough progress—and it must be sustained.

We must also consider the relationship between NAFTA and illegal immigration. Legal migration from Mexico and other nations will continue to make an important contribution to American diversity, vitality, and democracy. At the same time, the U.S. is committed to reducing illegal immigration. As Mexico's economy prospers, higher wages and greater opportunity will reduce the pressure for illegal migration to the United States. In the long-run, this is the most effective solution.

Like illegal immigration, pollution does not observe political boundaries. Mexico recognizes its problems—and is moving to address them both on its own and in cooperation with us. We are continuing our work with Mexico to develop a far-reaching environmental plan that will help clean up the border. Unlike any previous trade agreement, NAFTA explicitly links trade with the environment—and that is an important achievement in itself. The side agreement just negotiated will improve the enforcement of environmental laws and increase cross-border cooperation to curb pollution.

Today we are working with Mexico not only to resolve issues along the border, but to defuse hemispheric conflicts and crises. In June, Mexico and the United States together took the lead in calling for immediate action by the Organization of American States to stand by democracy in Guatemala. Our cooperation there made a difference—and symbolizes the constructive way in which relations between Mexico and the U.S. are evolving.

Mexico and the United States also came together in the same spirit of trust and friendship to support a successful negotiated conclusion to the war in El Salvador. NAFTA will further solidify the productive new relationship that the United States has been seeking with Mexico and our other Latin neighbors.

For more than half a century, every American President—Democrat and Republican alike—has stood for closer cooperation throughout the Western Hemisphere.

NAFTA reflects a bipartisan commitment to widening and improving America's ties to our Latin neighbors. It was under President Carter that we negotiated the Panama Canal treaty, but it was with the help of his two Republican predecessors—Presidents Ford and Nixon—that Congress agreed to ratify the treaty. Similarly, NAFTA was conceived and negotiated under President Bush, but substantially improved through side agreements on the environment and labor under President Clinton.

President Clinton is committed to building what he calls "a Hemispheric Community of Democracies linked by growing economic ties and common political beliefs." NAFTA will encourage democratic governments from Argentina to Venezuela that have opened their economies to trade and investment with the U.S. The agreement will be a bridge to a more promising future for the entire hemisphere.

Another way to state the importance of NAFTA is to consider the foreign policy consequences for our country if it is defeated.

Let me be clear: rejection of NAFTA would seriously damage our relations with Mexico and erode our credibility with the other nations of the hemisphere and the world. For the United States, failure to approve NAFTA would be a self-inflicted setback of historic proportions.

First, it would undermine Mexico's capacity to cooperate with us on vital cross-border issues that affect millions of Americans.

Second, it would send a chilling signal about our willingness to engage in Latin America at a time when so many of our neighbors are genuinely receptive to cooperation with the United States.

Third, it would hand our major economic competitors in Europe and East Asia a clear opportunity to gain advantage in what should be natural and growing markets for us.

Fourth, it would undermine our position as a negotiating partner on global trade agreements vital to the economic renewal of the United States.

Mr. Chairman and members of the Committee, NAFTA is a test of America's confidence. It will measure whether Americans believe in our ability to compete in open markets—or whether we will shrink from that challenge and cower in the face of a changing global economy. We must embrace change; we cannot escape from it.

In foreign policy terms, NAFTA is a test of America's leadership. It will measure our willingness to cooperate across a diverse range of issues with our closest neighbors. Our relations in this hemisphere—and our global economic leadership—will be substantially boosted by the decision of this Congress to approve NAFTA.

NAFTA is good economic policy—and good foreign policy. It is a once-in-a-generation opportunity. For the sake of future generations, NAFTA is an opportunity that must not be lost.

Thank you very much.

United States Department of State

Washington, D.C. 20520

SEP 17 1993

Dear Mr. Chairman:

At Wednesday's hearing on the North American Free Trade Agreement, Senator Riegle asked Secretary Christopher to respond to a statement in the Nation magazine concerning advice by the law firm of O'Melveny & Myers to the government of Mexico on NAFTA. The article asserts that the Mexican government had retained the law firm to advise on technical issues and that the firm had not disclosed these activities to the Justice Department. Secretary Christopher had promised a response.

The Department has consulted with the law firm and has obtained the following information: certain lawyers in the Washington office of O'Melveny & Myers advised Mexico with respect to the technical aspects of the disputes resolution provision of the North American Free Trade Agreement, but did not contact any U.S. Government official. The firm last advised the government of Mexico on NAFTA in February of 1992. The firm did not register with the Justice Department because it concluded that its activities did not require registration under the Foreign Agents Registration Act.

During his nomination process, Secretary Christopher not only fully disclosed all information about his financial affairs required by law, but also answered a number of questions the Senate asked of him. As the Secretary indicated in the hearing on Wednesday, he had nothing personally to do with the representation of Mexico. He therefore was not required to list the firm's representation on his financial disclosure form.

I hope this information is helpful to the Committee. Please let us know if we can be of further assistance.

Sincerely,

Wendy R. Sherman

Wendy R. Sherman
Assistant Secretary
Legislative Affairs

The Honorable
Daniel Patrick Moynihan, Chairman,
Committee on Finance,
United States Senate.

PREPARED STATEMENT OF SENATOR KENT CONRAD

[September 15, 1993]

Earlier this year I wrote Ambassador Kantor to express my concern that the NAFTA negotiated by the Bush Administration was so badly flawed that it ought to be renegotiated; The Administration had already decided, though, that the agreement would not be renegotiated but rather that it would be supplemented by side agreements. Consequently, I urged USTR to use these side agreements and the implementing legislation to fix the flaws that I perceived in the agreement.

These flaws included problems affecting the sugar and wheat industries, concerns regarding enforcement of the rules of origin and sanitary/phytosanitary chapters of the agreement, the widely different levels of wages and environmental and labor standards in Mexico and the U.S., flaws in the dispute settlement process, and a lack of protection against exchange rate manipulation.

Yesterday President Clinton signed the side agreements on labor, the environment and import surges. While the agreements on labor and the environment represent unprecedented attention to these issues in a trade agreement, I am not convinced that they go far enough in addressing these important issues.

In addition, and most importantly from the perspective of my state, they do not even address many of the issues I raised in my February 24 letter to Ambassador Kantor. I hope that these issues will still be addressed before the NAFTA comes to a vote, because I recognize that our economy is becoming increasingly integrated with the Mexican economy. In my view, we ought to manage this integration in a way that benefits farmers and workers and small businesses on both sides of the border.

But, frankly, I am skeptical that the NAFTA and its implementing legislation will be modified sufficiently. If these issues—and others that have come to my attention as I have studied the agreement and Mexico more closely—are not addressed, the NAFTA will be bad for North Dakota. And I believe it will be bad for the country as well.

There are several reasons why I cannot support the agreement in its current form. These range from specific concerns regarding agriculture to more general concerns regarding the low wages and incomes in the Mexican economy, Mexican enforcement of environmental standards, access to and the impartiality of the Mexican legal system, and the state of human rights and democracy in Mexico. I expect that there will be many opportunities over the next several months to debate these issues. Today, I want to focus on the impact of the NAFTA on North Dakota agriculture.

North Dakota producers of durum, hard red spring wheat and barley know first hand what a few loopholes in a trade agreement can do to their incomes. Ever since the U.S.-Canada Free Trade Agreement was implemented, North Dakota grain growers have suffered from a flood of unfairly subsidized Canadian imports. Canada has used huge transportation subsidies and the secretive, anti-competitive pricing practices of the Canadian Wheat Board to undercut U.S. prices. Imports of Canadian durum have climbed from 0 before 1985–86 to an average of 15 million bushels in the past two years. Imports of hard red spring wheat reached a record 35.4 million bushels last year—or more than seven times the average during the five years preceding implementation of the CFTA. As a result, North Dakota producers have lost hundreds of millions of dollars in income, and USDA supply management and export programs have been undermined.

The NAFTA, as negotiated by the Bush Administration, follows in the same path. It does nothing to correct the problems created by the CFTA, even though the President was required by the CFTA implementing legislation to enter into consultations to resolve these issues. In fact, the NAFTA will make things worse by allowing Canada to use westbound transportation subsidies to ship wheat into Mexico.

I am encouraged that Ambassador Kantor and Secretary Espy have been much more sympathetic to the concerns of wheat growers than their predecessors had been. Their efforts to approve the use of EEP to counter aggressive Canadian subsidies in the Mexican market is a clear step in the right direction. Yet the basic problems of the CFTA have not been resolved; much more must be done.

I have urged USDA to recommend that the President invoke Section 22 of the Agricultural Adjustment Act of 1933 to limit Canadian imports. And I have aggressively championed end-use certificates to prevent the illegal commingling of Canadian grains into U.S. export programs. It is my hope that these steps will eventually lead to a negotiated agreement that closes the loopholes in the CFTA and levels the playing field in the North American grain trade.

The NAFTA also creates significant problems for sugar producers. Sugar is a $1.5 billion industry in the Red River Valley of North Dakota and Minnesota, but it could be wiped out by a loophole in the NAFTA. In its present form, the agreement could allow Mexico, which is currently a net importer of sugar, to export unlimited amounts of sugar to the U.S. starting in year seven of the agreement if Mexico becomes a "net surplus producer" of sugar. If Mexico had to increase its production by diverting resources from other types of agriculture and dramatically increasing the efficiency of its processors, this would seem reasonable. But Mexico doesn't have to do this. Instead, because of an ambiguity in the text, Mexico may be able to achieve a net production surplus simply by converting its beverage industry from sugar to high fructose corn sweetener. This provision must be clarified in order to ensure that the sensitive U.S. sugar industry—an industry that is highly competitive in the world market and supplies sugar to the American consumer at the lowest price in the developed world—receives the full benefit of a 15 year transition period.

NAFTA also treats potato and edible bean producers unfairly. Because U.S. negotiators did not accurately measure U.S. edible bean exports to Mexico, the tariff rate quota established by the NAFTA will cut U.S. exports to Mexico in half. While USTR argues that the quota is a minimum amount and may be increased if the Mexican domestic supply is inadequate, there is no guarantee that U.S. producers and Mexican purchasers will receive adequate notice of any temporary increase in the quota nor that other countries will not gain advantageous access to the Mexican market in this situation. It is my hope that this ambiguity could be cleared up through an exchange of letters with Mexico.

While potatoes did not fare quite as badly as edible beans, potato producers appear to be worse off under NAFTA than they would have been without it. Over the past several years, potato exports to Mexico have doubled each year as Mexican processing plants sprouted in northern Mexico. The NAFTA stops this growth in its tracks.

To be completely fair, NAFTA will likely increase U.S. exports of a number of commodities produced in North Dakota. Exports of corn, oilseeds, pork and beef are projected to increase as a result of the NAFTA. However, unless something is done to address the problems I identified above, the overall impact on North Dakota producers will be negative.

Beyond the impact of the NAFTA on individual commodities, I have serious concerns about the application of the rules of origin and sanitary and phytosanitary portions of the agreement. On paper, the rules of origin are strong and detailed. But the provisions enforcing these rules are weak. In practice, because agricultural commodities are fungible, there will be little more to rely on than the good faith of Mexican producers and the Mexican government. Unfortunately, self-certification is insufficient to prevent non-Mexican goods from receiving the preferential treatment granted to Mexican products in the NAFTA—especially as Mexico concludes trade agreements and expands its trade with other Latin American and Caribbean nations. Yet the cumbersome notification requirements in the verification procedures virtually guarantee that there will be little effective oversight beyond self-certification of Mexican exporters. Unless the verification procedures are considerably strengthened, I fear that the NAFTA could lead to significant transshipment of agricultural goods through Mexico into the U.S.

Similarly, the agreement contains strong sanitary and phytosanitary standards on paper. However, there is no question that food safety and consumer protection standards in Mexico are significantly lower than in the U.S. While the agreement allows the U.S. to maintain its current standards and apply them to Mexican imports, I have two concerns. The first is that—given the realities of USDA border inspections—some Mexican imports will not be adequately tested. The second is that there will be strong pressure for the U.S. to accept Mexican standards as equivalent to our own when—because they are not effectively enforced—they are, in fact, weaker. We should not allow the NAFTA to threaten the safety of our food supply nor undercut our lengthy and expensive disease control and pest eradication efforts. Not only would a less safe food supply risk the health of U.S. consumers—and even their lives, as the E-coli attack this spring demonstrated—it could lead to significantly lower domestic consumption and negate any projected benefits to U.S. producers from expanded exports to Mexico.

Finally, I am concerned about how the availability of low cost labor and lower standards might affect the location of food processing facilities. While I recognize that many factors other than just labor go into facility location decisions, labor costs are often one of the most significant factors within the control of management. Value added processing and other light manufacturing ventures have been touted as the key to economic development in rural communities. Rural America cannot afford to lose the diversification and incomes provided by these enterprises. This is clearly a risk: as I mentioned earlier, Mexico is investing in potato processing facilities, and Green Giant moved a major processing plant from Watsonville, California to Mexico in 1983. As the Green Giant example suggests, some of this will happen without the NAFTA, but NAFTA will undoubtedly accelerate the process. Unless Mexican wages rise to levels commensurate with the productivity of Mexican workers using modern U.S. equipment, I fear that NAFTA could lead more value-added processing to move south of the border.

While I have many concerns about elements of this particular agreement, I believe strongly in expanding trade. I am convinced that U.S. agriculture can compete successfully with anyone on a level playing field. As I said at the beginning of my statement, I hope that the Administration will move expeditiously to repair the flaws in the agreement. And I hope to receive more than just rhetorical assurances that sending jobs to Mexico in order to help American workers is different from the other brands of trickle down economics preached by the previous Administration. I am skeptical, but I will try to listen with an open mind. I look forward to the testimony of our distinguished witnesses.

PREPARED STATEMENT OF SENATOR KENT CONRAD

[September 21, 1993]

Mr. Chairman, I want to thank you for calling this hearing on labor issues in the NAFTA. The question of the impact of the NAFTA on American workers is central to the national debate on NAFTA. And, as I expect the testimony we hear today will demonstrate, the answers to this question can be very different depending on who you ask.

As I said last Wednesday at the first of this series of hearings on the NAFTA, I am somewhat skeptical of the arguments of NAFTA supporters. I do not know that this agreement will be good for the country, and I expect that it will be bad for my state unless the flaws in the agriculture provisions are fixed.

A large part of my skepticism regarding the benefits of the NAFTA for the country as a whole is based on my doubts about its effect on U.S. jobs. The Administration has marshal led an impressive array of economists and studies which purport to demonstrate with scientific accuracy that the NAFTA will create 2,400 or 42,300 or 200,000 or more jobs over the next several years. Before I get into the various arguments, assumptions and estimates that underlie these predictions, I would just like to dwell on these numbers for a minute .

2,400—or even 200,000—jobs over the next 10 years are awfully detailed, precise estimates in an economy of over 100 million jobs where millions of jobs are created and millions of jobs disappear every year. They are outrageously precise when we look at the record of economic forecasting just one year ahead. Those of my colleagues who serve with me on the Budget Committee and rely on economic forecasts in developing and analyzing the economic assumptions underlying budget estimates, have learned to be very wary of these forecasts; their margin of error tends to be depressingly high. When this margin of error is multiplied over a ten year period, numbers of this magnitude in an economy as large as the U.S. economy become essentially meaningless.

So I don't think the numbers are very useful, other than to give a general ballpark idea of the possible economic impact of the agreement. All they tell me is that the agreement is likely, on net, to either create or cost up to 500,000 jobs. The ultimate job impact of the NAFTA within this range will depend on behavioral and policy responses that can't be predicted with any accuracy before the agreement takes effect. Judging from the analyses of the U.S.-Canada Free Trade Agreement that I have seen, even if NAFTA passes we will not be able to identify with any great degree of accuracy its impact on the economy. There are simply too many factors affecting economic performance to single out the impact of a trade agreement on the number of jobs in the economy.

This doesn't mean that the trade agreement will not have an important effect on our economy. Clearly, the NAFTA will have an impact. One thing we are almost certain will happen is that NAFTA will accelerate the movement of U.S. plants to Mexico to take advantage of cheaper wages. Labor costs are certainly not the only determinant of plant location decisions; if they were, as NAFTA supporters are fond of pointing out, Haiti and Bangladesh would be manufacturing giants. But the difference in unit labor costs—taking into account the productivity of Mexican workers using modern U.S. equipment—between the U.S. and Mexico will be big enough to convince many U.S. businesses to move production to Mexico.

Some of this would happen without NAFTA. And some firms will find that NAFTA lowers barriers to exports to Mexico sufficiently that they no longer need to relocate to Mexico in order to sell in the Mexican market. But, in my view, the dominant effect of the NAFTA will be a change in the investment climate in Mexico induced by the investment, financial services and intellectual property chapters of the NAFTA. And the dominant result of this change will be an increase in plant relocations to Mexico.

The other thing we are almost certain will happen as the result of NAFTA will be an increase in U.S. exports to Mexico. Mexico's tariffs are, on average, two and a half times our tariffs. Lowering these barriers will have a positive impact on our trade balance with Mexico. The increased investment in Mexico that I just talked about will also likely increase Mexican incomes and the Mexican demand for U.S. goods. However, I have yet to be convinced of the magnitude or duration of this increase in exports.

While the increase in net exports to Mexico in the last five years has been impressive, I fear that it might be misleading for at least two reasons. The first is that the majority of exports to Mexico consists of capital goods and components for reshipment to the U.S. As Senator Levin so effectively pointed out in his testimony last Wednesday, it is extremely misleading to suggest that, when an assembly plant moves from the U.S. to Mexico so that the same component parts that used to be sold domestically are sold into Mexico, increased exports of components translate into a net creation of U.S. jobs. Similarly, exports of capital goods to Mexico provide a short term benefit to the U.S. economy, but if these capital goods are used to replace domestic production of goods for consumption in the U.S. with Mexican production of these same goods, the benefits will be very transitory.

The second reason I fear the recent export performance may be misleading is that I believe the peso is overvalued. When it is devalued, Mexican production will become relatively cheaper, while U.S. exports to Mexico will be more expensive. The Canadian experience when the U.S. dollar depreciated relative to the Canadian dollar demonstrates the negative effects of devaluation on the country whose currency appreciates in relative terms.

However, to the extent that tariffs drop, average Mexican workers' incomes rise and Mexican purchases of U.S. consumer goods rise, increased exports may offset some or all of the job losses associated with plant relocation to Mexico. Unfortunately, I have yet to be convinced that the rise in Mexican income will be sufficiently widely distributed to generate enough of an increase in purchases of consumer goods to offset those job losses. So long as Mexican workers are earning $2.35 an hour and living in shacks without running water, sewage systems or electricity, they will not buy many U.S. computers—or much of anything else from the U.S.

I am not sure what to conclude from these two offsetting trends. Plant relocations will cost jobs. Increased exports will create jobs. While I am skeptical of the claims of NAFTA proponents regarding increased exports, I am not yet entirely sold on the worst case scenarios of NAFTA opponents regarding plant relocations.

I am convinced, however, that there will be a significant number of workers and their families who will experience a negative impact from the NAFTA. Based on the experience of the last ten years, workers who lose their jobs as a result of a plant relocation to Mexico will permanently lose income. Some may never find another job; they will drop out of the labor force permanently when they get too discouraged to continue looking for work. Those who do find other jobs will likely take jobs with lower pay and fewer benefits than the jobs they lost.

While NAFTA supporters paint a rosy picture of new high-skill, high-wage jobs created by exports to Mexico, I see a fundamental mismatch between those who lost their jobs and those who will benefit from these newly created jobs. Unless the Administration's job training program is able to work miracles, I find it unlikely that a textile worker who loses her job will be retrained as a computer consultant.

If I am going to ask U.S. workers to put their jobs at risk by voting for NAFTA, I need to get much more convincing answers than I have heard to date about what new jobs these workers will receive and how they will find them and qualify for them. I also need to hear a more convincing argument than I have yet heard that NAFTA will on net create a significant number of new jobs; economic theories and optimistic assessments of export potential are not sufficient. Unless I am convinced that the benefits are larger and less speculative than I currently think they are, I do not think they are worth the immediate and real costs that NAFTA will impose on an economy already suffering from a "jobs recession."

Before I conclude my statement, I want to touch briefly on the side agreements negotiated by the Clinton Administration. While I do not think they are nearly strong enough, they are a positive step. As the Administration has pointed out, this is the first time in history that the enforcement of labor and environmental standards has been attached to a trade agreement. The side agreements will certainly not be a panacea, but I hope that they will make at least a small difference in encouraging Mexico to strengthen and more strictly enforce its labor and environmental standards so that there is less pressure to compete by lowering U.S. standards. I also hope that President Salinas will follow through on his commitment to tie increases in the minimum wage to increases in productivity, and that the U.S. will push Mexico to go beyond this commitment and bring its wages up to levels justified by its productivity.

I look forward to interesting testimony from the two witnesses; I hope it will clarify some of the issues and questions I have touched upon.

PREPARED STATEMENT OF THOMAS R. DONAHUE

Mr. Chairman, on behalf of the AFL–CIO, I welcome this opportunity to present our views on the proposed North American Free Trade Agreement and its supplemental accords.

In brief, the AFL–CIO believes that the adoption of this agreement would seriously harm the U.S. economy, resulting in the loss of hundreds of thousands of American jobs and a decline in the nation's standard of living.

Last week the President of the United States, flanked by three of his predecessors, made an impassioned plea for the congressional adoption of the North American Free Trade Agreement. President Clinton's central contention, is that the debate over NAFTA is fundamentally "a debate about whether or not we will embrace change." Others have said that the supporters of NAFTA look to the future, while opponents look to the past. Nothing could be further from the truth.

The question is not whether we change or stagnate. It is whether or not our government is capable of *shaping* change so that it benefits the majority of citizens, not just powerful elites. That is, after all, the reason that democratic government was brought forth.

Trade and investment relationships must be structured so that the benefits of economic activity are spread as widely as possible. In ignoring this imperative, NAFTA represents the most recent manifestation of "trickle-down" economic theories, coupled with reliance on the "free market" as the only path to economic progress. It has not worked over the last 12 years, and it won't work now.

Workers have long since learned that when market forces are left to their own devices they cannot be expected to bring sustained, equitable economic growth and social progress. Many of the major achievements of this nation—the establishment of the minimum wage, the abolition of child labor, the development of workplace health and safety laws, collective bargaining, and environmental protections—were intended to temper and restrain some of the most brutal effects of the free market. Free markets literally need to be civilized—channeled in democratically agreed-upon directions if the economy is to serve the people.

What is at stake is not more or less trade with Mexico, but the nature and quality of that trade. As drafted, NAFTA contains no protections against a further deindustrialization of the American economy. There are no protections against the transfer of our technological edge. There are no counter-incentives to massive transfers of investment and production to Mexico. And there are no protections for Mexican workers to help ensure that they—and not just their employers—will reap benefits from increased investment.

There is no doubt that U.S.-based multinational corporations would benefit from NAFTA. The United States as a whole, however, stands to lose an enormous amount.

Ultimately, NAFTA supporters have one very simple argument: all things being equal, increased international commerce results in greater general prosperity. We do not disagree on this. But the fact of the matter is that there is very little that is now "equal" between the United States and Mexico—and, indeed, between the U.S. and all of the other nations which manage trade to their advantage.

In 1992, the average hourly compensation for American manufacturing workers was $16.17, for Mexican manufacturing workers it was $2.35. According to the Bureau of Labor Statistics, compensation in the U.S.-dominated maquiladora sector was even lower, averaging just $1.64 an hour.

As a result, the Mexican consumer market is depressingly small. Mexico is a country with more than one-third our population, but only 5 percent of our buying power. Currently, Mexico has a 40 percent poverty rate, a 20 percent unemployment rate, and a gross domestic product one-twentieth of ours. Many Mexican workers—particularly maquila workers—live in cardboard shanties without electricity or running water, and drink and bathe in unfiltered streams filled with toxic runoff from nearby plants. The average Mexican family simply cannot afford to purchase the products that they make, much less contribute to American prosperity by buying goods made in the United States.

This is not demagoguery, it is fact.

Existing trade patterns underscore this reality. While it is true that we now have a small trade surplus with Mexico, there is every reason to believe that it is only temporary. Capital goods (manufacturing plants and equipment) and intermediate goods (parts used to make final products which are sent back to the U.S. market) accounted for more than 80 percent of all U.S. exports to Mexico in 1992. The vast majority of finished products from these plants flow back to the United States and Canada where—for now—workers earn enough to also be consumers. U.S. exports to Mexico of consumer and agricultural products accounted for only 19 percent of the total. Once the peso is devalued (a move rumored for next year and certainly likely within the next two years), Mexican workers will be even poorer relative to the U.S. dollar, and far less capable of buying products manufactured in the United States.

We should be clear, Mexico is not now a huge market for U.S. exports, and NAFTA will not make it so. It is a low wage production location for U.S. factories.

The current NAFTA was not designed to improve this picture, but to expand on it. As President Clinton previously acknowledged, this is really an effort to increase and protect U.S. investment in Mexico, and the agreement meets this goal with flying colors.

NAFTA guarantees the repatriation across borders of profits, dividends, and capital gains. It guarantees the convertibility of currency at market rates. It guards against the expropriation of property and it guarantees prompt compensation.

It is fascinating to compare the enforcement of these protections for business with the enforcement of the rights of working people—or more precisely, the lack of enforcement.

NAFTA spells out, in exquisite detail, the remedies—including trade actions—that can be taken by inventors or invention owners whose trademarks, copyrights or patents are exploited by those who refuse to pay a fair, negotiated price.

The men and women who make these products, however, are offered no guarantee of their right to a fair, negotiated wage or decent working conditions.

The labor supplemental agreement, rather than advancing labor rights and standards, actually represents a weakening of existing remedies available under U.S. law. The accord contains no agreement on or definition of minimal worker rights and standards. Remedies can only be sought for persistently poor enforcement of a narrow group of standards, not for gross violations of labor rights. No remedies are offered for infringements against workers' rights to free association, to collective bargaining, or to withhold labor through strikes.

The consultation and dispute resolution procedures, even for the little that is covered, is so protracted and tortuous as to make the timely resolution of disputes almost inconceivable. For covered practices, it appears that the enforcement process would take more than 1,210 days. Mexico's chief trade negotiator assured the Mexican Congress that the process was so "exceedingly long," that it is "very improbable that the stage of sanctions could be reached." We agree.

Even with its many inadequacies, the supplemental agreement on the environment is far stronger than the labor agreement. Why is the protection of workers less important than the protection of business owners or the environment? (See attached preliminary analysis of the labor side accord.)

Beyond the inadequacy of the labor supplemental agreement, the NAFTA contains dozens of specific provisions (see attached) which also would be extremely harmful to domestic employment. Weak rules of origin, inadequate safeguard procedures, inequitable rules for investment, and inequitable market access—these are but a few of the provisions that would be detrimental to U.S. workers.

In the automotive sector, NAFTA would let Mexico retain protections for its domestic producers for at least 10 years, and even longer if the Mexican government demands future commitments from the companies. It would permit the Canadian government to retain the safeguards of the Auto Pact—but the United States would have no comparable protection for either parts production or assembly.

In the apparel sector, where 80 percent of what's left of the work force is female and 20 percent is of Hispanic origin, the agreement would result in massive job dislocation without offering any prospect of reemployment.

In the land transportation sector, NAFTA would allow Mexican carriers to operate in U.S. border states in three years, and it would give Mexican carriers access to all of the United States for transporting freight and persons originating south of the border in six years. But even though Mexican truck drivers and bus drivers might work full time in the U.S., they would not be protected by our minimum wage laws.

In its chapter on "temporary entry for business persons," NAFTA departs from one of the cardinal principles of U.S. immigration policy, which is that employers can hire temporary entrants only when they show that they are unable to recruit workers here.

We have already seen the importation of nurse strike-breakers from Canada, and now we propose to add Mexican nurses to the labor pool.

Last year, the *Wall Street Journal* published a survey of 455 senior executives of manufacturing companies. Fifty-five percent of executives from companies with at least $1 billion a year in sales said that, if this agreement goes through, it is very likely or somewhat likely that they shift some production to Mexico within the next few years. Twenty-four percent said that it was likely that they would use the threat of job loss to Mexico to bargain down the wages and benefits of U.S. employees. And according to a Conference Board report, during the next two years, business spending will grow almost three times faster in Mexico than in the United States.

I believe that we should take these business leaders at their word.

The AFL–CIO will enthusiastically support any new framework for trade and investment that truly protects the jobs of those who need them, that strengthens the democratic rights of workers throughout North America, that raises living standards and promotes economic development in the poorer areas of the continent, and that ensures that we will all have a healthy and safe environment.

But when NAFTA and its side accords are measured by those criteria, they are a complete failure.

Contrast our nation's performance with that of the European Community, when asked to integrate economically with less-developed Greece, Spain and Portugal.

Both the EC and the U.S. claimed to want democratization. The EC demanded and achieved it. We never tried.

Both were said to want higher living standards in the poorer partners. The EC protected workers' right to form independent unions and negotiate for higher wages, than backed it up with a development fund. We never tried.

Both were said to want to prevent "social dumping," not allowing competition based on low wages to result in lost jobs and reduced wages in the richer nations. The EC tried to raise up the poor and provided disincentives for job flight. We never tried.

"Change" is the inevitable result of this failure to confront the political and social effects of economic globalization. But it is change that is regressive.

In 1914, Henry Ford raised the wages of his workers so that they could afford to buy the cars that they made. He reasoned that if he did not, there would be too many Fords and too few consumers. At the time, the editors of the Wall Street Journal declared this to be an "economic crime."

In the 1930s, U.S. auto workers fought for and won the right to negotiate a decent standard of living for themselves. Like Wall Street, the Washington establishment was aghast.

By 1993, both Ford and GM had established Mexican maquiladora plants to manufacture cars for the U.S. market. Their workers achieve productivity levels close to or equal to those in U.S. and Japanese auto factories, yet their wages are a fraction of U.S. wages. Most are prevented from joining independent unions.

When American workers object to a global economy based on this type of systemic inequity, pundits and politicians accuse us of being economic criminals.

The real story is not that NAFTA has the support of five former presidents. Rather, it is the fact that NAFTA is understood and opposed by the majority of American citizens—auto workers in Illinois, truck drivers in California, maritime workers on the East Coast.

They know that no promise of worker retraining, no breakthrough in technology, no-government-business partnership scheme, can bring back the jobs and the investment dollars that NAFTA will take from the U.S. under the conditions enshrined by NAFTA.

They have a right to expect more from those they elect to represent their interests.

This country can and must do better.

Preliminary Analysis

THE NAFTA SIDE ACCORD ON LABOR

The AFL-CIO believes that the North American Free Trade Agreement, as drafted by the Bush administration, would be ruinous to the U.S. economy, resulting in the loss of hundreds of thousands of American jobs and a general decline in wages. One of the agreements' primary -- though far from only -- flaws is its complete failure to promote the upward harmonization of living standards by linking market access with the enforcement of worker rights and labor standards.

During the 1992 presidential contest, the Clinton campaign promised to solve the problem by negotiating a side agreement with strong "dispute resolution powers" and "effective remedies." Unfortunately, the final product negotiated by the Clinton administration falls far short of its stated purpose. In fact, this labor accord actually represents a weakening of existing remedies available under U.S. trade law.

1) The accord contains no agreement on, or definition of, minimal international worker rights and labor standards.

The accord simply refers to such standards and commits each nation to promote them "in accordance with its domestic laws." In other words, if internationally-recognized rights and standards -- as defined by other international treaties, International Labor Organization Conventions, the U.N. Declaration on Human Rights, U.S. law or common sense -- are not adequately protected under one country's laws, this agreement offers no recourse.

2) Remedies can only be sought for poor enforcement of labor standards, not for gross violations of worker rights.

Freedom of association is the bedrock liberty upon which trade unions are built, as are all other civil institutions in a democratic society. It affirms the right of citizens to form and join organizations of their own choosing, hold meetings, speak and operate without fear of reprisal. This fundamental freedom is not protected by the accord. Neither are citizens' rights to bargain collectively, to withhold labor through strikes or to be free from being forced to provide labor (slavery and prison labor).

Action may only be sought if a nation "has engaged in a persistent pattern of failure to effectively enforce its labor laws with respect to health and safety, child labor and minimum wage." In addition, the non-enforcement must "relat[e] to a situation involving mutually recognized labor laws and related to trade."

Under existing U.S. law -- the Generalized System of Preferences, the Caribbean Basin Initiative, the Overseas Private Investment Corporation, amendments to Section 301 of the 1988 Trade Act, regulations on trade with South Africa, and some foreign assistance programs -- a violation of any of these labor rights and standards is defined as an unfair trading practice. If they are infringed, trade and investment benefits can be removed. Why is this accord weaker than what is already defined by law?

3) The consultation and dispute resolution procedures on labor standards are so long and tortuous as to discourage complaints and petitions.

The accord establishes a "trinational Labor Commission" with four separate bureaucratic layers: 1) a Ministerial Council, consisting of the labor ministers of each nation, 2) an International Coordinating Secretariat (ICS), which assists the Council and carries out "day-to-day" activities, 3) the National Administrative Offices (NAOs), which will act as a point of contact between nations and provide information on domestic laws, and 4) Evaluation Committees of Experts (ECEs), which will be convened on an as-needed basis to deliver technical advise and analysis.

The NAOs could "receive" and "conduct preliminary reviews" of "public communications." If the national NAO finds that there is, indeed, a problem, then there would be "consultations" between NAOs. Then the ministers would "consult." Then the ministers could ask for an ECE report. Only after consultations and a report can one of the parties request further action. Then two of the three ministers must vote to convene and arbitration panel. Then this panel must meet and write a second report. If the second panel also finds non-enforcement of labor laws, then the guilty party would be given 60 days to begin an agreed-upon plan of enforcement. If they do not, then up to 120 days after the second panel meets, it will be reconvened to decide on a plan, and perhaps to levy a fine of up to $20 million.

In the words of Mexico's Commerce Secretary, Jaime Serra Puche, **"The time frame of the process makes it very improbable that the stage of sanctions could be reached."** At each step in the process, it must be demonstrated that a "persistent pattern" of non-enforcement exists. What constitutes "persistent" behavior? Would it be necessary to prove 5, 25, or 2,500 unpenalized violations of basic labor standards before action could be taken?

And finally, laws which are simply inadequate would not qualify for any corrective action at all.

4) The only enforceable remedies are ineffective.

The offending government will be given six months to implement the enforcement plan and pay any fines. If it refuses, the complaining parties have very few options. Those that exist are asymmetrical and nonreciprocal.

If the case is against Mexico or the United States, their NAFTA benefits could be suspended through the imposition of penalty duties, quotas or investment limits based on the amount of the fine. If the case is against Canada, the Labor Commission must file suit in the Federal Court of Canada to recover the fine or have the action plan instituted.

No matter how fair the nation of Canada and its court system may be, it is difficult to believe that the cases against it will be judged with the same impartiality as the cases it brings. It is also difficult to believe that persistent labor standards violations by one company, no matter how egregious, would be allowed to impede cross-border trade with the offending nation.

The NAFTA provisions governing intellectual property, such as patents, copyrights and trademarks, stand in stark contrast. Not only is fast action possible, but specific corporate violators can be targeted by having contraband goods stopped at the border. Why is the labor of workers given lesser protection than the labor of inventors, businessmen and invention owners?

NAFTA – What American Workers Asked For and What They Got

In February 1993, the AFL-CIO called on the Clinton administration to renegotiate President Bush's flawed North American Free Trade Agreement, in order to protect labor rights and standards, the environment, consumer health and safety and American jobs.

How does the final NAFTA package (including the side agreements on labor, the environment and import surges) compare with what American workers asked for?

WE ASKED FOR: *A measure whereby infractions of labor rights or workplace standards can be enforced by trade actions. Areas to be addressed include the right to organize and bargain collectively, the establishment of strong workplace heath and safety standards, appropriate minimum wage structures, the elimination of child labor, a prohibition on forced labor, and guarantees of non-discrimination in employment.*

DID WE GET IT? NO.

The NAFTA side accord on labor is actually *weaker* than existing U.S. trade law. Remedies can only be sought for poor *enforcement* of labor standards, not for gross violations of worker rights. Freedom of association—the bedrock liberty upon which unions and all other civic institutions are built—is not covered by the side accord. Neither are citizens' rights to bargain collectively, to withhold labor through strikes, to be free from workplace discrimination, or to be free from being forced to provide labor (slavery and prison labor). The few penalties are ineffective, and can only be imposed if it can be proven that there is a "persistent pattern" of poor enforcement of minimum wage, health and safety or child labor laws. In addition, the procedures to impose these weak sanctions are so long and tortuous that Mexico's Commerce Secretary was able to reassure colleagues that it was "improbable" they could ever be enforced.

WE ASKED FOR: *Provisions to address the existing environmental degradation of the border area, based on the "polluter pays" principle, as well as provisions to permit trade actions to address violations of environmental standards.*

DID WE GET IT? **NO**.

Many corporations have circumvented U.S. environmental laws by moving to Mexico where environmental laws are not enforced. While they have prospered, they have also turned much of the border area into what Business Week calls a "2,000-mile garbage dump." The side accord on the environment does nothing to force these companies to clean up the environmental mess they have made. Instead, the U.S. government will use a bond issue, backed by U.S. taxpayers. The amount of money being considered is inadequate. There are loopholes that leave U.S. environmental laws vulnerable to challenge. And, like the side accord on labor, the environmental side accord has an enforcement process that is so long and cumbersome that it is doubtful whether any polluters will ever be called to account.

WE ASKED FOR: *Tougher rules of origin, so that any benefits derived from an agreement will accrue to workers and producers located in the three countries.*

DID WE GET IT? **NO**.

The AFL-CIO believes that an 80% rule of origin would be an appropriate level to assure that the benefits of the agreement accrue to workers and companies located in the three signatory nations. The final level, as negotiated by the Bush administration, is set at 60% of the transition value or 50% of the "net cost" of the product being traded. Even this 50%, however, can include administrative costs and a variety of other non-production-related costs. In other words, a product could have a substantial amount of parts made in China or Japan and still be considered "made in Mexico" for the purposes of this agreement.

WE ASKED FOR: *The immediate elimination of duty-drawback programs.*

DID WE GET IT? **NO**.

This is a program whereby a Korean company could import parts into Mexico or Canada, assemble them there, export the final product to the U.S., and then have Mexican or Canadian customs duties kicked-back to company headquarters in Korea. Under NAFTA, this practice would continue until the year 20001.

WE ASKED FOR: *The immediate elimination of export performance requirements and import-licensing schemes.*

DID WE GET IT? **NO**.

In effect, Mexico's export performance requirements mandate that some multinationals sell their Mexican-assembled goods on the American market. Under NAFTA, this program, whereby foreign-owned companies are required to export the same amount as they import, would not be phased out for 10 years. By requiring import licenses, Mexico has closed its markets to many types of American-made goods. Under NAFTA, Mexico will be allowed to continue protections on a significant list of products for up to 25 years.

WE ASKED FOR: *The requirement that all internationally-traded goods are marked with their country of origin.*

DID WE GET IT? **MOSTLY, YES**.

However, there are significant exemptions for transistors, semiconductors, integrated circuits and ceramic bricks, together with their respective containers. This loop-hole will make it more difficult to spot third-country circumventions of existing trade treaties.

WE ASKED FOR: *Safeguard provisions that protect U.S. workers against import surges.*

DID WE GET IT? **NO**.

The Clinton administration's side accord on import surges is only an agreement that the signatory nations will "monitor" and "consult." No additional safeguards were ever on the table. Under Bush's NAFTA, it would be very difficult to protect workers from an unexpected onslaught of imports. As written, the rules make any case very difficult to prove. Even if more than one industry could prove its case, only one remedy is allowed during the transition period. Thereafter, any action would require the consent of the exporting nation. No remedy can last for more than three years, down from the eight years currently allowed. And the only possible remedy is a "snap-back" to previous tariff levels. Without the possibility of a more measured response, it is improbable that any action would ever be taken.

WE ASKED FOR: *The continuation of federal, state and local "Buy American" laws and regulations.*

DID WE GET IT? **NO**.

Under NAFTA, federal government purchases over a certain dollar limit will be open to suppliers from other NAFTA countries, and signatories are obligated to seek to extend these provisions to states and localities. For the first time in any American trade agreement, the procurement of services, as well as goods, will be covered. It is unclear what this change will mean for the federal, state and local governments in their attempts to deliver services in ways that most benefit the community of taxpayers.

WE ASKED FOR: *The enforcement of strict sanitary and phyto-sanitary standards with no restrictions on improvements in those standards.*

DID WE GET IT? **NO**.

As written, NAFTA would allow strong American consumer-protection laws to be challenged as barriers to trade. This section of the agreement (on pesticides, plant and animal pests, and diseases that threaten food safety) promotes the equalization of standards among the parties at the local, state and national levels. Since the text recognizes international rules that, in many cases, are weaker than U.S. law, this may mean a significant harmonization downward.

WE ASKED FOR: *The continuation of necessary federal and state regulations concerning the provision of financial and insurance services.*

DID WE GET IT? **NO**.

In fact, NAFTA may open a pandora's box in financial services. Given the fragility of the U.S. financial sector and the catastrophic costs borne by taxpayers as a consequence of 1980s' bank and savings-and-loan deregulation schemes, we do not believe that Congress' ability to regulate financial institutions should be limited. The NAFTA, however, attempts to "disciplin[e] government measures regulating financial services." It is also unclear how Mexican and Canadian financial companies will be treated under U.S. law, and whether or not they will be subject to the same regulations as domestic institutions.

WE ASKED FOR: *Strict limitations on the "temporary entry" of persons to provide services, including transportation services, and the prohibition of entry to affect a labor dispute. Any temporary entrant must, at a minimum, be paid and work under conditions prevailing in the host country.*

DID WE GET IT? **NO**.

In fact, the NAFTA greatly expands temporary entry and weakens current U.S. immigration laws. Under current procedures, employers must show that they cannot find domestic workers before hiring outside of the country. Under NAFTA there is no such limitation. NAFTA would also allow for grossly unfair competition. Mexican truck drivers, for instance, could work virtually full-time in the U.S., while being paid Mexican wages and operating under Mexican safety standards.

WE ASKED FOR: *A prohibition on transferring work or workers across borders in the event of a labor dispute, and a prohibition on trade while a labor dispute is in progress.*

DID WE GET IT? **NO**.

None of these issues is addressed in the NAFTA or in any of the side accords. There is certainly nothing that would prevent the work of strikers from being contracted-out across borders, and there is nothing to prevent employers from importing strikebreakers. The latter has already been done with strikebreaking nurses from Canada, now Mexico will also be a hiring ground for scabs.

WE ASKED FOR: *The ability of government to adopt standards and related measures to protect public safety or the environment.*

DID WE GET IT? **NOT REALLY**.

New standards can be adopted, however, as detailed above, U.S. environmental and food-safety will be subject to challenge as unfair barriers. U.S. highway-safety laws will be almost impossible to enforce.

WE ASKED FOR: *Reciprocity in the treatment of foreign investment.*

DID WE GET IT? **NO**.

Both Canada and Mexico will be allowed to maintain regulations on a large proportion of foreign investments, while similar actions are not allowed for the U.S.

WE ASKED FOR: *Equal market access for cultural industries.*

DID WE GET IT? **NO**.

Canada will be allowed to maintain restrictions on products of the American entertainment industry.

WE ASKED FOR: *Safeguards for U.S. automotive production, equivalent to safeguards present in Mexico and Canada, and the continuation of existing CAFE rules.*

DID WE GET IT? **NO**.

Canada is allowed to maintain, and Mexico is allowed to phase-out, protections for their auto industries. American workers have no such protection. In addition, companies can choose whether Mexican auto production is considered "foreign" or "domestic" for 10 years for the purposes of CAFE (Corporate Average Fuel Economy) standards. (After 10 years all Mexican production will be considered "domestic.") This will have the effect of encouraging small-car production to be shifted to Mexico. Instead of learning to be more efficient in their production of small cars, the Big Three can just use cheaper Mexican labor and still maintain their company's U.S. environmental targets.

WE ASKED FOR: *Provisions that address the needs of import-sensitive industries, including, but not limited to, textiles and apparel, electrical and electronic, glass, tuna, meat, sugar and light-duty trucks.*

DID WE GET IT? NO.

These industries remain particularly threatened by NAFTA.

WE ASKED FOR: *A five-year review of the economic impact of an agreement that would permit parties to suspend provisions when necessary to address labor market disruptions.*

DID WE GET IT? NO.

NAFTA does contain a provision that allows any nation to withdraw with six months notice, presumably because of catastrophic ill effects. However, there is no provision that would mandate the kind of analysis that would be capable of spotting gradual job losses or the resulting downward pressure on living standards.

WE ASKED FOR: *Provision for additional debt relief for Mexico, so that it can begin investing at home to improve the standard of living of its people.*

DID WE GET IT? NO.

In the 1980s, the pressure of foreign debt sent Mexico's economy into a tailspin from which wage rates and living standards have still not recovered. With the prospect of economic integration, these pressures will also have an effect on the American economy. Despite this fact, the issue was never addressed by NAFTA negotiators.

WE ASKED FOR: *A cross-border transaction tax to serve as a major funding source for needed programs including: a substantial increase in funds for food safety inspection and the customs service; sufficient funds to improve the infrastructure of the border area, including water treatment, electricity, and needed housing and schools; a significantly improved Trade Adjustment Assistance (TAA) program to provide guaranteed benefits to workers harmed by trade.*

DID WE GET IT? NO.

The idea of a cross-border tax on cross-border commerce to pay for the hidden costs of these transaction gained some support in Congress, but was rejected by both the Bush and Clinton administrations. These costs, estimated at as high as $40 billion over 10 years, will be borne mostly by the American taxpayer. Some of Mexico's infrastructure could possibly be funded through an environmental bond-issue (backed by U.S. tax-dollars) and through a proposed regional development bank (which would probably be funded by U.S. taxpayers). Thus far, legislative proposals for TAA are totally inadequate.

WE ASKED FOR: *Legislation to eliminate the foreign tax credit and deferral and to deny trade benefits to companies that transfer production to Mexico. For workers dislocated by any such transfers, companies should be required to cover health insurance, pay severance, training and job search costs.*

DID WE GET IT? NO.

No such legislation has been proposed or even contemplated. Corporations would be free to abandon American communities, enjoy the benefits of NAFTA, and write-off the cost of transferring production on their taxes. U.S. workers would, of course, be left in the lurch.

PREPARED STATEMENT OF CHARLES E. GRASSLEY

Thank you Mr. Chairman. It has been a long process from the days when the Bush administration first brought the North American Free Trade agreement to this Body. Today we not only have the Bush administration's original proposal; but also the Clinton administration's support of that proposal along with the side agreements on labor and the environment they have negotiated.

The debate, particularly over the August recess has been extremely acute by the opponents of this issue. Yesterday I was pleased to see former Presidents Ford, Carter, and Bush take the offensive along with President Clinton on what is sure to be a long and heated debate on the NAFTA.

Numerous studies have been released on the pro's and con's of a NAFTA agreement. In all of the studies the central theme seemed to weigh heavily on the most often asked question: "Will the United States lose jobs to the Mexican?" While the majority of reports conclude that there will be a net job gain, one report of particular concern to me raised the potential of a net job loss in the appliance industry in my home state of Iowa.

The I.T.C. report concluded the following likely impact on appliance firms like Maytag, Amana, and Fridgidaire: "NAFTA will likely result in a decline in U.S. major appliance production and employment of about five (5) percent in the short term and ten-fifteen (10–15) percent in the long term. Any decline in U.S. production and employment will likely occur in the midwest, where the majority of domestic production takes place."

Ironically what the agreement does is force these manufacturers to lose jobs because of their decision to stay in the United States versus moving to Mexico to compete with lower import tariff rates into the United States and two other U.S. appliance manufacturers who have already relocated.

Of particular concern to me Mr. Chairman is the impact on the heavy appliance products that will be the most severely impacted. Both Iowa and the Nation have a great deal to gain from the passage of NAFTA. Nevertheless, I feel just as strongly that this administration should not sacrifice good paying jobs in a stable and productive industry such as the appliance industry. I would hope the Clinton administration can work with the Mexican Government to arrive at a amicable resolution to this very serious problem. I am willing to work with them toward that end and hope that a solution can be found before the final vote on this issue.

A recent CBO study concluded that: "with or without NAFTA, low skilled workers in the United States will continue to face competition from low skilled workers in other countries. The failure of Mexico to continue with its economic reform strategy, or of the United States to approve "NAFTA, would not amount to much of a reprieve for these workers, nor would the success of NAFTA greatly affect their fortunes one way or the other." This, however, is not the case with the appliance workers in Iowa. For these reasons I hope that the Clinton administration can reconsider their rigid position on this issue and (without reopening the text) work with the Mexican Government to find a workable solution for not losing these highly productive and good paying jobs.

Mr. Chairman, I would like to support NAFTA, and it is my hope that I will be able to do so since there are many benefits to farmers and businesses in my home State.

PREPARED STATEMENT OF ORRIN G. HATCH

[September 15, 1993]

Mr. Chairman, I join the committee's enthusiastic welcome of its distinguished former chairman, along with Secretary Christopher and Ambassador Kantor. This is the type of team it is going to take to make NAFTA a reality.

MEXICO HAS MADE REFORMS TO GET NAFTA

Senator Dole and I just returned from a visit with President Salinas. His administration has done just about everything human to lay the groundwork for an agreement. To mention a few of the major changes:

- Mexican working conditions and wages have improved greatly over the past nine years, with the average manufacturing wage at $26.00 per day and climbing.
- His environmental commitment is indisputable: he has committed $400 million to border clean-ups, and closed hundreds of polluting businesses.
- But most importantly, he is creating a financial infrastructure suited to trade:

—Mexican debt is now at 26% of GDP, down from 100% in 1986.
—There have been over 1,000 privatizations.
—Mexico's Standard & Poor bond rating is now at BB+ (double-B plus), just below investment grade, which only Chile enjoys in all of South America, and which is better than many U.S. states.
—He has stopped capital flight, and is now bringing in over $15 billion of annual investment. This has complemented the removal of currency controls which have resulted in a 43% appreciation of the peso.

Let me make two parenthetical comments on this last point: Mexico will continue to seek trading partners, most likely in Europe and Asia, if NAFTA fails. Secondly, the rapid appreciation of Mexico's peso will make their exports expensive, slowing its development as a trade threat to us for many years.

MEXICO HAS MADE MANY OTHER CONCESSIONS TO GET NAFTA

Besides these internal changes, Mexico made concessions repeatedly during the Bush and Clinton negotiations.

- It opened its doors to tariff-free telecommunications exports.
- It liberalized access to many parts of its financial sector.
- It agreed to the adoption of trade sanctions for environmental violations something I oppose personally as counterproductive to the very notion of a trade agreement.
- And, it allowed the U.S. to continue maximum protections of refined sugar and our frozen citrus juices.

U.S. SUPPORT FOR NAFTA FALLING ANYWAY

Despite what I consider to be a good deal for the U.S., there is much opposition. In Congress, I don't think the President believes he can rely on his own House members. But even some House Republicans are deliberating the political wisdom of supporting a President which his own party is abandoning. Although Senate support is stronger, the rampant politicization of the issue is overlapping onto popular support.

And popular support is up in the air. Worse, and I want to emphasize this point, a recent *USA Today* poll shows 40 percent of the American people don't even know what NAFTA is. In addition, we are all getting calls from people who oppose it but, who on further questioning, can't give a good and defensible reason why!

It is hardly surprising that opponents like Ross Perot are having a field day. Allied-Signal's CEO, Larry Bossidy, has been selected by 2,700 businesses, formed into the "USA-NAFTA" coalition, to lead the fight for NAFTA. He has said that as wrong as Perot is, he's not going to change his mind.

Nor is labor going to change, even though they have much to gain: upgraded job skill training, higher levels of technology, and, by every serious study, more jobs. Labor unions see themselves losing lesser skilled members, and want from NAFTA side agreements what they can't get from Congress, like strike-breaker bans.

WE CAN STILL GET A NAFTA WIN

I think there is still time to develop a groundswell of support for NAFTA.

NAFTA is a *trade* treaty. Unlike other foreign policy treaties, it is more complex. But it also has a more direct and immediate effect on the single greatest reason that people vote and contact their congressional delegations: economic well-being.

I'm disappointed in the media. They are generally quite good at airing foreign policy issues, even those with only a remote bearing on their viewers, listeners and readers. Here they're presented with a pithy issue and it's relegated to tow priority.

I'm also disappointed with our academicians. Although 283 economists, including 12 Nobel Laureates support NAFTA, we are not getting the interest that many lesser foreign policy issues enjoy.

But the leadership responsibility shifts back to the White House, and to Congress. On the Republican side, I think we've taken a good, substantive step in our visit with President Salinas. And I admire the USTR's rebuttals on the Perot arguments.

What we need is information relating the major sectoral benefits that Americans will enjoy from NAFTA, and beyond NAFTA. If pocketbook issues make people act, then those issues need to be the target of pro-NAFTA efforts.

Mr. Chairman, I am sure that many share this concern, and I thank the chair for the opportunity to voice it.

PREPARED STATEMENT OF ORRIN G. HATCH

[September 21, 1993]

Mr. Chairman, I am pleased to welcome Secretary Reich and our other witnesses to this hearing on the confusing messages emitting from the many conflicting studies on NAFTA's job impact.

I tend to agree with the CBO report. Over the next decade, there will be some job losses among low-skilled workers, and they will suffer. Therefore, we have a commitment to them which I know every member of this panel will fulfill.

But, rather than wring our hands over speculative, negative aspects of NAFTA, we need to remind ourselves of some fundamental facts underlying this agreement:

—*It is the U.S. that is increasing its exports to Mexico. In two years, we went from a trade deficit to a $5 billion trade surplus.*

—Our export trade amounts to over $40 billion, supporting *700,000* U.S. jobs, with another *200,000* created within one year after NAFTA enters into effect.

—And, export-related jobs pay anywhere from 11–17 percent more than other jobs.

Mr. Chairman, these few statistics tell me a lot about what NAFTA can do for our economy.

—First, exports of both consumer and capital goods are expected to increase—at an accelerating rate—as Mexican citizens, who already spend 70 percent of their discretionary income on U.S. consumer goods, become even greater consumers of our products and services.

—And, as Mexico continues to pull itself toward "first-world" status, the country will need, I will say *demand,* the technology that will help it take these steps to open up new markets for U.S. products. I speak of telecommunications equipment, computer hardware and software, capital goods needed for manufacturing, and *especially* vehicles—autos, light medium and heavy trucks, and trailers. Does anyone doubt that the great majority of these items will come from the United States? Can anyone point to another market, anywhere else in the world, more imminently available than the one on our very doorstep?

—Second, we may even find a labor *deficit* in the U.S. for the skilled workers that we will need to meet the demands of the Mexican import market.

The U.S. enjoys the highest individual worker productivity level in the world, and it rose by still another 4.6 percent last year, putting us ahead of every other G–7 country. We also *saved* 1.5 percent in labor costs. Overall, the U.S. has a productivity level that is more than ten times higher than Mexico. *This is the real "competition index" for U.S. workers.* We should not be afraid to compete with Mexico.

Let me try to add some additional encouragement. NAFTA will not leave anyone behind. For all my disagreements with President Clinton, I agree with him that NAFTA is a good deal for American workers.

We have a good, three-part program to help displaced workers. It does not simply rely on unemployment insurance but, provides full reemployment assistance and training through two other elements, the Economic Dislocation and Worker Adjustment Assistance program and the Trade Adjustment Assistance program.

Mr. Chairman, I know that Secretary Reich will be explaining these programs, and I also anticipate that the witnesses will question their effectiveness. This forum is important to the process of exchanging views.

As a NAFTA supporter, I continue to hope that the job creation value of NAFTA will become apparent. For my part, I have yet to hear a convincing argument that this country will be a loser in the NAFTA environment.

I thank the chair and look forward to reviewing the testimony of our witnesses this morning.

PREPARED STATEMENT OF SENATOR ORRIN G. HATCH

[September 28, 1993]

SECTION 301 OFFERS "DOUBLE INDEMNITY" PROTECTION UNDER NAFTA

Mr. Chairman, I want to join the welcome of our panelists, and the important issues that they have asked to raise before this committee today.

Increasingly, Mr. Chairman, opposition to NAFTA is becoming heavily protectionist oriented. Many commodity groups, environmentalists, and especially labor fear substantial injuries from a NAFTA agreement. Labor Secretary Reich, in his appearance before this committee on September 21, hinted at this. But he pointed out that the *underlying U.S. trade laws that prevent unreasonable, unfair, unjustifiable or other discriminatory practices against the United States would not be changed.*

Let me take Secretary Reich's argument one important step further. The residual protections in U.S. trade statutes against such practices offer a form of "double indemnity" insurance policy to U.S. trade interests. I say this because if you don't like the anti-surge or dispute resolution, or other remediation procedures in the NAFTA agreement, or if they don't apply, you never forfeit your recourse to such U.S. statutory mechanisms as Section 301 of the Trade Act of 1974.

I would disagree substantially with my friend Tom Donohue of the AFL–CIO, and very likely, some of our panelists, who feel that agricultural, environmental or labor interests are not protected by Sec. 301.

On the contrary, Sec. 301 continues to apply to Mexico, in precisely the same way it applied to Canada after passage of the Canadian Free Trade Agreement. In fact, we have had several significant Sec. 301 actions against Canada, notably the Beer and Magnesium cases, the latter involving MAGCORP of America, a large mining company in my own state of Utah.

My friend Dick Gephardt also misconstrued the general authority of Sec. 301 in his well-publicized September 21st anti-NAFTA speech. The House Majority Leader said that Mexican duty-free benefits would no longer be subject to violations of internationally recognized worker rights. There simply is no basis whatsoever for reaching that conclusion through any accepted standard of analysis in reviewing the NAFTA text.

I believe that the Majority Leader intended to say that there has never been a section 301 investigation regarding internationally recognized worker rights.

The Supplemental Labor Agreement addresses the issue of child labor, for example. The Agreement then puts in place an organizational framework which includes a Dispute Settlement Panel. If the panel were to establish a persistent pattern of failure to effectively enforce child labor provisions, fines, even trade sanctions could be imposed.

But here is where the "double indemnity" feature kicks in. Even if the NAFTA dispute resolution mechanism rejects child labor law findings of violations, U.S. trade interests that see themselves injured by the practice can still file a Sec. 301 investigation as can the U.S. Trade Representative.

Sec. 301's legislative history, which will always be part of a court's statutory interpretation materials, makes it quite clear that: Sec. 301 is intended by Congress:

> *To provide the authority and procedures for the President to enforce U.S. rights under international trade agreements and to respond to certain unfair foreign practices.* [P.L. 93–618, Jan. 3, 1975]

This authority was actually *strengthened* under amendments to Sec. 301 in the Trade Agreements Act of 1979, which, among other features, improved:

> *Enforcement of U.S. [statutory] rights and responses to actions by foreign countries inconsistent with or otherwise denying U.S. benefits under trade agreements.* [P.L. 96–39, July 26, 1979]

Finally, the Omnibus Trade and competitiveness Act of 1988, the landmark trade legislation of our legislative generation, *mandated* the USTR to obtain the "elimination of the act, policy or practice" discussed above.

Mr. Chairman, like you, I await the several legal memoranda that are now under Preparation on the applicability of Sec. 301 to NAFTA. However, I am confident that NAFTA alone cannot defeat the anti-dumping, price-undercutting or other unfair or unreasonable practices that have been fully aired in the long NAFTA negotiations process.

In closing, let me thank the chair for its courtesy in allowing my remarks.

Prepared Statement of Senator Ernest F. Hollings

Mr. Chairman, I appreciate the opportunity to appear before the Committee and I thank you for your courtesy. Mr. Chairman, in the coming months we will have an historic opportunity to break with the failed policies of the past and set a new course for the future.

Previous American initiatives to boost democracy in Latin America fell short of their lofty goals. President Roosevelt's Good Neighbor Policy, Operation Pan American during the Eisenhower Administration, President Kennedy's Alliance for Progress, and President Reagan's Caribbean Basin Initiative failed because our commitment to democratic and social reform never matched our rhetoric.

Instead of pursuing a narrow economic agreement which preserves the status quo in Mexico and rewards the entrenched oligarchy that for over sixty years has ruled Mexico with an iron thumb, we should link access to the world's largest market to the adoption of genuine political, social and economic reforms. Our previous forays into Latin America failed because we sided with the forces of the status quo rather than with those brave people struggling to break free of authoritarian rule.

I agree that we must not turn our back on our neighbor Mexico. However, we also have an obligation not to turn our back on the millions of Mexican people who have been disenfranchised by a corrupt political and economic system.

To seize this historic opportunity to promote change and to promote democracy, I propose an approach binding the nations of the Americas together in a common commitment to democracy and open markets in a Common Market for the American.

Unlike the NAFTA, which fails to link economic reforms to democratic reforms, the Common Market approach puts people first by putting democracy first and by rewarding democratic progress with economic trade privileges.

As democracy sweeps across the globe, the benefits of a truly free market will be enjoyed only when the market is buttressed by strong democratic institutions. The democratic institutions that we cherish do not now exist in Mexico. President Salinas has embraced superficial reforms, but he has been careful not to challenge the power structure that has ruled for the last sixty years. As Jorge G. Castenada said in this months edition of *Foreign Affairs:*

> Mexico's underlying problems persist. It retains a largely corrupt and unchallenged state that possesses only the merest trappings of the rule of law. The enduring obstacles to Mexico's modernization—its repeated failure to transfer power democratically or, to remedy the ancestral injustice of its society—remain and will require Mexico to continue to change itself with or without a trade accord.

Election reforms in Mexico still rest all power in the hands of the ruling party. For example, there are no independent electoral commissions. And one year after campaign finance reform was introduced and President Salinas committed to spending limits, Mexico's electoral reform law, rejected by the two opposition party leaders, contains no limits on individual political contributions. We will continue to see PRI loyalists shore up their party's coffers at $25 million-a-plate political dinners.

CLOSED ECONOMIC SYSTEM

It is not just the political system that is closed; Mexico's economic system is still not open. Far from being a model of a free market development, Mexico is following a much different model of development. According to *Business Week:*

> In their drive to modernize Mexico, Salinas and his planners command nearly every variable of the economy. To smother inflation and preserve Mexico's huge labor cost gap with the U.S. and other producers, Salinas fixes salaries through a complex business labor agreement known as el pacto. He anoints and boots out labor union bosses and state governors alike. A few years ago, he quietly banished an obstreperous American president of Chrysler de Mexico, who was quickly replaced by a Mexican. Salinas and his technocrats juggle import duties and steer investment from one region to another. In short, Salinas and his number crunchers run a near command economy much closer to the Asian model than any country in the West.

The beneficiaries of Mexico's economic reforms have not been the 20 million Mexicans who earn less than $400 per year. Instead, the winners have been the stock speculators on the Bolsa Mexicana and the families who for the past 60 years have controlled the countries industrial conglomerates—the same families who so generously contribute to the ruling PRI. Augustin Legoretta, former president of Banamex, proudly proclaims that "a very comfortable little group of 300 people make all the economically important decisions in Mexico."

This comfortable little group has profited handsomely from the spate of privatization. Top PRI supporters have won control of a number of formerly state owned industries. Financier Carlos Slim won control of Telemex, the Mexican phone company and also gained control of one of the state owned banks. Pablo Brener, a PRI fundraiser, was awarded Mexicana Airlines, while Jorge Larrera, another close friend of the President, now owns the former state owned copper mine Cannea. These are the people who stand to benefit from NAFTA, not the Mexican worker whose wages are suppressed by "El Pacto" and whose right to increase his bargaining power by forming independent unions is suppressed by the Mexican state.

Since Mexico has adopted its new economic policies, the gap between rich and poor in Mexico has widened. The richest 10% saw its share of the national wealth increase by 15% while 25% of Mexico's tiny middle class fell into the burgeoning ranks of the poor. As long as this country condones a free trade agreement that exacerbates an inequitable distribution of income and turns its back on democracy, we will be sowing the seeds of discontent by cementing into place Mexico's class system.

A truly democratic Mexico would not tolerate the labor abuses, environmental abuses and human rights abuses that are taking place on its watch. As a democratic society, the U.S. should not tolerate these abuses, much less award them with trade concessions. Rather, to foster the development of true democratic capitalism we must follow the example set by the European Community.

When Spain, Portugal and Greece sought admission into the Community, the EC required each nation to adopt significant economic and *political* reforms to ensure that their membership would not unduly disrupt economies of the other members of the Community.

Indeed, unlike NAFTA, the preamble of the accession agreement states that "the principles of pluralist democracy and respect for human rights form part of the common heritage of the peoples of the states brought together in the European Communities."

Mr. Chairman, members of the Committee, this is the essential component of NAFTA that is missing. In basic contract law, first year law students learn that in order to make a legally-binding contract you must have the capacity to contract. Until Mexico becomes a fully functioning democracy it in essence does not have the capacity to contract. You cannot have a free trade agreement if you do not have free people.

Mr. Chairman, in the next several months a barrage of numbers will be thrown around to support NAFTA:

(1) "NAFTA will create 200,000 new jobs"

While we are told that NAFTA will create 200,000 new jobs, we are not told that the studies arriving at this figure assume full employment in the U.S. and no shift in investment patterns. The studies also do not take into account any job losses from imports. In fact, even the pro-NAFTA study done by Gary Hufbauer of the Institute for International Economics acknowledges that 15 years out the net effect of NAFTA is a loss of jobs.

Two studies which did take into account a change in investment patterns and less-than-full employment came to a quite different conclusion. According to the Economic Policy Institute the U.S. would lose 500,000 jobs under NAFTA, and according to the Economic Strategy Institute the U.S. would lose 400,000 jobs.

(2) "Mexico is a Tremendous Export Market"

According to the World Bank, Mexico has a per capita income of $3000, five percent below its per capita income in 1980. Twenty million Mexicans earn less than $400 per year—yet the supporters of NAFTA claim that Mexicans purchase more per capita than the Europeans or the Japanese. If you closely examine the composition of our exports to Mexico and our imports from Mexico you will see that we are not selling goods to 80 million Mexican consumers. Instead we are sending capital goods and industrial supplies to U.S. factories and gleaming new Mexican factories so they can export products back to the United States. Mexican trade data provided to our negotiators shows that 55% of our exports to Mexico never entered the Mexican market.

While we enjoyed $5 billion surplus with Mexico in 1992, for the first six months of 1993 our surplus has been cut in half. In fact, according to Nora Lustig, of the Brookings Institution, our trade surplus with Mexico is probably a one time phenomena.

> The good news [for Mexico] is that the highest increase is to be found in capital goods (24.8) and the lowest in consumer goods (10.6) This upsurge in import is in part a response to the expansion of productive capacity in anticipation of Mexico's positive outlook. The current large imbalance in the trade account may well be a one time phenomenon in the sense that it is the result of modernization of the productive plan that will soon render its fruits in the form of higher net exports.

NAFTA's focus is misdirected. We shouldn't be focused on trade between our two nations; instead we should use the Common Market approach to create an outwardlooking trade pact to capture the markets in the fastest growing economic region of the world, the Pacific Rim.

(3) "NAFTA Will Raise Real Wages"

Since NAFTA does nothing to change the political and social system in Mexico, its implementation will not result in wage increases in Mexico. President Salinas has promised to raise wages in conjuction with productivity increases. This is nothing new since Mexican wage increases under "El Pacto" are already tied to productivity increases. According to Harley Saiken, a visiting professor at the University of California at Berkely, the productivity of the Mexican worker rose by 41% from 1980 to 1992 but the wages were only 61% of what they were in 1980, a 39% decline.

The fact is that Mexico is pursuing a developmental strategy designed to attract badly needed foreign investment by using cheap wages and unlimited access to the U.S. economy as its principle attraction. The technocrats running Mexico's economy know that they have to provide a workforce whose productivity is the equal of the "Asian Tigers" but with lower wages.

(4) "Companies Can Move Without NAFTA"

It's true that large American companies have moved to Mexico to take advantage of low wages and lax environmental standards. If companies already can move to Mexico and are comfortable with the regulation of foreign investment then why was it necessary to intrude into Mexico's internal affairs and require that Mexicans make significant changes to the Mexican laws that regulate foreign investment? If businesses are pleased with the Mexican business environment then why is it necessary to give NAFTA investors access to binding international arbitration? Indeed, why do we need chapter 11 of NAFTA, the investment chapter? U.S. business wants it because they want the insurance that they don't have now so that these investment in Mexico will be protected.

CONCLUSION

Mr. Chairman, I thank you for this opportunity to testify and I hope in the coming months you will give serious consideration to the Common Market for the Americas, an approach that will build a functioning middle class by bringing the institutions of democracy to Mexico.

ERNEST F. HOLLINGS
SOUTH CAROLINA

OFFICES:
1835 Assembly Street
Columbia, SC 29201
803-765-5731

103 Federal Building
Spartanburg, SC 29301
803-585-3702

126 Federal Building
Greenville, SC 29603
803-233-5366

112 Custom House
200 East Bay Street
Charleston, SC 29401
803-724-4525

United States Senate

125 RUSSELL OFFICE BUILDING
WASHINGTON, DC 20510–4002
202-224-6121

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OFFICE OF TECHNOLOGY ASSESSMENT
NATIONAL OCEAN POLICY STUDY

September 8, 1993

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I applaud your efforts to make democracy and human rights a cornerstone of your administration. Over the past several years, millions of people in the former Soviet Union and Eastern Europe have shed the yoke of oppression to embrace democracy.

In the wake of the triumph of democratic capitalism abroad, it is incumbent upon our government to do everything in its power to nurture the development of democratic governments.

The North American Free Trade Agreement negotiated by your predecessor falls short. It does not promote democratic reform. In fact, the word "democracy" is not found in the 2,000-plus pages of the treaty.

NAFTA only promotes the Mexican status quo -- a status quo filled with abuses of human rights, electoral fraud and the tight control of power. NAFTA only legitimizes the Institutional Revolutionary Party (PRI) -- Mexico's ruling party that systematically denies working Mexicans the benefits of representative democracy.

Mr. President, the embrace of free market economic reforms should not justify continued political repression. In 1988, Mexico's presidential election was marred by widespread governmental fraud, and as the State Department noted last year, instances of electoral fraud continue to occur.

To prevent a repeat of the electoral fraud that has characterized past Mexican elections, I encourage you to urge the Mexican government to ask former President Jimmy Carter to lead an independent team of United Nations observers to witness the 1994 presidential election.

Until Mexico embraces democracy, we should not reward it with the benefits of a free trade agreement. Wages and working conditions in Mexico will not improve until Mexico becomes a democracy whose authority derives from the will of its people. Instead, let us fulfill the vision offered by President John F. Kennedy:

No program which is restricted to the technicalities of economic development can fully answer the needs of the Americas. Only an approach to economic progress and social justice which is based on the wide acceptance of the fundamental ideals of political democracy and human dignity can conquer the many ills of our hemisphere and respond fully to the aspirations of our people.

With kindest regards, I am

Sincerely,

Ernest F. Hollings

U.S. SENATOR
FRITZ HOLLINGS
NEWS

CONTACT: Andy Brack at (202) 224-6654

MEDIA BACKGROUNDER:

S. 1444: The Common Market For the Americas

U.S. Sen. Fritz Hollings proposed the Common Market For the Americas (CMFA) on Sept. 9, 1993, to require countries in North, Central and South America to embrace basic democratic reforms before they could receive the benefits of a Common Market. As he noted on calling for the CMFA, "the word 'democracy' doesn't appear in the 2,000-plus pages of NAFTA."

Fundamental to the Common Market approach is the commitment to democratic ideals, as contained in the preamble of the European Common Market charter.

Highlights of the Hollings' proposal include:

Social Charter. CMFA includes a Social Charter to ensure that all nations protect worker rights, health and safety. It would provide enforceable protections against the interference in the creation of independent labor unions.

New Development Fund. CMFA follows the European Common Market's example of establishing a development fund to raise living standards throughout the hemisphere and to alleviate any dislocations caused by lowering of tariff barriers.

Debt Relief. The proposal provides for debt relief negotiations modeled on an enlarged Brady Plan to ensure that CMFA nations can use export earnings to raise living standards instead of using earnings to pay interest on debt.

Export Incentives. CMFA will provide incentives to use the Common Market area to export goods to the emerging economies of the Pacific Rim and Europe. In contrast, NAFTA establishes a duty-free export platform for European and Asian nations to gain entry into the U.S. market.

Devaluation Prevention. CMFA will provide for cooperation between finance ministers of member countries to avoid competitive devaluations that would destabilize current accounts and force wages down.

Quota Reallocation. CMFA calls for democracy in our hemisphere and would strip the dictatorial regime in China of its bilateral textile quota, which would be reallocated to Mexico and other member nations.

Prepared Statement of Cornelius E. Hubner

- NAFTA will compromise our ability to maintain our sovereignty. This question has more to do with where the power to make decisions rests, and whether the Constitutionally-guaranteed right to petition the government for the redress of grievances will be rendered hollow by NAFTA's conflict-of-laws provisions.

- New York State has witnessed the effects of wage-based relocations twice in recent history -- once to its detriment and once to its benefit. In the 1960s and 1970s, many of New York's industrial cities were devastated by the movement of major companies to the South and West to take advantage of much lesser wage differentials than those currently existing between the United States and Mexico.

- Since the entry into effect of the U.S.-Canada FTA, many Canadian companies have moved manufacturing jobs to the Buffalo-Rochester area. This southern migration has left the Canadian manufacturing base in shambles. New York's exports to Canada have soared, increasing about 75 percent.

- Massive wage differentials between the United States and Mexico will lead to significant economic dislocation in America -- costing the United States jobs and tax revenue. Larger corporations and their suppliers will relocate to Mexico to take advantage of the low wages and lax regulatory environment, leaving unemployment and broken communities in their wake.

- Proponents of the North American Free Trade Agreement (NAFTA) have often said that exports are responsible for 70% of America's GDP growth in recent years. In addition, they have asserted that export-related jobs are better than domestic-related jobs because they pay 17% more. However, the assumptions and methodology behind these statistics make them almost totally misleading.

- The "side agreements" to NAFTA create powerful incentives to increase regulation, or to forego regulatory reform in the future. Under the side agreements, any attempt at "de-regulation" could be construed as an unfair trade practice, and could trigger trade sanctions.

- Larger companies have the means to escape or protect themselves from the anti-business regulatory burdens imposed both by Washington and by NAFTA. They either have the political clout to minimize the impact on their companies, or they can simply leave the United States. Small and medium-sized companies like mine do not, and will bear a greater percentage of the cost of the new regulatory burden.

CHAIRMAN MOYNIHAN and members of the Committee, thank you for the opportunity to appear before the Senate Finance Committee today. I am Bud Hubner, Chairman and President of American Felt and Filter Company of New Windsor, New York. American Felt and Filter Company's primary product is liquid and air filtration media. We have already been quite successful selling our products in international markets. Therefore, many people might think that I support NAFTA like many of my peers in the business community. However, I am against NAFTA because it will destroy the economic and social fabric of our nation.

Let me begin by discussing the sovereignty issue. I am concerned about what NAFTA means for our ability to maintain our sovereignty. I understand that sovereignty is not a measurable quantity, and that one cannot analyze NAFTA and determine that it will take away X% of America's sovereignty. This question has more to do with where the power to make decisions rests, and whether the Constitutionally-guaranteed right to petition the government for the redress of grievances will be rendered hollow by NAFTA's conflict-of-laws provisions.

In the name of "harmonization" (required of all NAFTA signatories) American states and the U.S. Congress may be forced to change American law to comport with that of our neighbors. At the very least, American political leaders will be subject to intense political pressure to harmonize upward to more restrictive and burdensome Canadian standards. The exertion of that political pressure is the purpose of the tri-national regulatory bureaucracy envisioned by the so-called "side agreements." The side agreements to NAFTA would create a North American Commission on Environmental Cooperation, in effect a North America-wide Environmental Protection Agency. According to U.S. Trade Representative Kantor, NACEC would have broad authority, including the right to review, "environmental implications of products throughout their lifecycles." And according to an official document from his office, "any environmental or natural resource issue may be addressed" by this commission.

The side agreements also create a similar commission charged with monitoring industrial relations, wage-and-hour issues and working conditions in the signatory countries. According to the side-agreement documentation, these commissions would function by identifying a "problem" where a signatory nation or a company or individual within its jurisdiction is acting in some manner detrimental to free trade among the three signatory countries. All three countries would be compelled by the agreement to engage in "consultations" to decide the best way to remedy the problem. This consultation would produce an "action plan", presumably including schedules and goals for resolution of the problem. Failure to meet the goals of the "action plan" would first result in fines levied against the offending nation, and could ultimately result in trade sanctions. These sanctions would be intended to deny the offender nation the "benefit" of free trade with its neighbor. Many environmental concerns could be subject to this process, as would labor concerns related to wage and hour issues, child labor laws, and employee health and safety regulations.

NAFTA could even endanger America's unfair trade laws. These laws, known generally as anti-dumping and countervailing duty laws, provide American manufacturers a recourse against unfair foreign government subsidies and predatory pricing practices. Under Article 1904 of the NAFTA agreement itself, our unfair trade laws would be subject to a process similar process to that I just described for environmental and labor law. Thus, we put America in the unenviable position of possibly being subject to greater international regulation while being stripped of any means to protect itself from unfair foreign competition.

Please note, Mr. Chairman, that this system of fines and sanctions exempts Canada, which insisted that such disputes be referred to its own court system. Indeed, one of Canada's chief trade officials told the press in Canada that his nation "will never be subject trade sanctions."

It is true that the side agreements do not require immediate change in any U.S. law. It is also true that the side agreements create powerful incentives to increase regulation, or to forego regulatory reform in the future, because either action could trigger the formulation of "action plans," imposition of fines, and trade sanctions. In the coming year we will face legislative questions over "reform" of the Occupational Safety and Health Act as well as raising and indexing the federal minimum wage. It takes little imagination to envision supporters of these measures implying that failure to pass this legislation could lead to international trade sanctions under NAFTA.

I am not alone in my concern about the relationship between the tri-national NAFTA bureaucracy. We believe numerous local and state statutes would be endangered by NAFTA. Chief among these are *Buy American* statutes. At least 35 states and hundreds of American cities have these laws. The Minnesota state legislature recently found 30 state laws which it believed NAFTA would force it to overturn. While Minnesota's Governor disagreed and vetoed a resolution expressing their concerns, *The Economist* magazine noted:

> *"A GATT (General Agreement on Tariffs and Trade) panel, ruling last year, confirmed that states' laws could be successfully challenged under trade agreements. The panel, summoned by Canada, found that laws covering the distribution of wine and beer in more than 40 states were inconsistent with international trade rules...The federal government has been working with the states to change the offending laws."*

Now let me turn to my concern for the general health of the economy. As a businessman, I am concerned for the general health of our economy. After all, it is performing poorly already. By destroying jobs, lowering tax revenues, and placing American businesses in jeopardy, NAFTA will have a negative impact on our economy.

As a New Yorker, I have been in a unique position to witness the outflow of companies and jobs that I believe will be the precursors of the economic impact of NAFTA on America. As you know, Mr. Chairman, the loss of DuPont and other manufacturers in the 1960s and 1970s devastated New Windsor and Newburgh. They pulled out of our town and moved south -- not to Mexico, but to lower-wage states. I invite you, Mr. Chairman, and any other interested members of this committee, to come on a tour of my town to see first hand the urban and industrial decay, the chronic unemployment, the alcoholism, the drugs, and prostitution that follow in the wake of industrial relocations.

And don't make the mistake of thinking that we can solve these problems simply by throwing some federal funds into social programs, such as a large, new, government-sponsored retraining program. New York, which was one of the nation's wealthiest states before the industrial relocation movement started, has always had one of the nation's most extensive social safety nets. But it was not enough to contain the damage.

Incidentally, one might ask why the companies left New York in the first place. The answer is simple: high wages, extensive regulation, and high taxes left little or no margin to survive in business. Most of these factors are the same one that will drive companies to Mexico under NAFTA.

Another way to calculate the effect of NAFTA is to look at the interaction of the New York and Canadian economies since January 1, 1989 when the FTA became operational. Since 1989, our state has seen a large influx of Canadian companies. In October of last year, The New York Times reported that some eighty Canadian companies has relocated just to the Buffalo area since the implementation of the FTA: "Analysts said the agreement was the chief reason for a 75 percent jump in exports from New York State to Canada between 1989 and last year (1991)." Some Canadians estimate Canada has lost as much as one-fifth of her manufacturing base in recent years. The wage differential between Canada and New York was about 10 percent, that is Canada's wages were slightly higher than New York's. That is a small fraction of the chasm in wages today between the United States and Mexico. The article goes on to note:

> *Even without the Free Trade Agreement, the New York region has lost a succession of manufacturers to Mexico. Most of the losses have come from the same area that has benefited most from the 1989 Canadian agreement -- Buffalo and other western New York cities. This list of lost manufacturers includes Trico Products, which left Buffalo, eliminating 1700 jobs, Sherwood Medical Instruments, which eliminated 420 jobs and Sherburne, and Smith Corona, based in Cortland, which has announced that it will move 885 jobs to Mexico.*

There is a wide gap in incomes between the U.S. and Mexico -- $22,650 in annual per capita income for the U.S., $2,870 for Mexico. The difference in average hourly wages is equally striking: $16.17 per hour in the U.S. v. $2.35 per hour in Mexico. Is it in America's interest, or New York's interest, to encourage the another shift from New York southward?

NAFTA's proponents incorrectly claim the answer to this question is yes. It is not. They claim that exports are responsible for 70% of America's GDP growth in recent years. In addition, they have asserted that export-related jobs are better than domestic-related jobs because they pay 17% more. However, the assumptions and methodology behind these statistics are questionable and these claims do not stand up under closer scrutiny.

These figures, 70% of GDP and 17% greater pay, are used endlessly during debates on various trade-related legislation. The aim: creating the impression that the U.S. economy would then fall flat on its face if deprived of export-led growth.

The first problem in the 70 percent figure lies in GDP growth has been anemic in recent years. Such sluggish GDP growth makes any increase in exports, even a small one, look impressive measured relative to this base. Tacit in the bragging about the percentage is the admission that GDP growth has been abysmal.

The second problem lies in the export figure. Basically, any component of national income -- personal consumption, investment, net exports, government purchases, or any component thereof -- has a statistical relationship to GDP. Consequently, singling out exports as "accounting for" 70% of our economic growth is unjustified. It creates the impression that other factors have "accounted for" only 30% percent of the GDP growth -- an impression that is simply false.

Consumption, government expenditures, and exports all contributed to growing aggregate demand, and all can be expressed as a percentage of GDP growth. Thus it is disingenuous at very to focus on only one of the several contributors to GDP growth.

In fact, it is deceptive to argue that exports, consumption, or government expenditures are the source of GDP growth. All of these components of national income can create aggregate demand stimulus. So, if the economy is below full-employment and full capacity utilization, an increase in one of these components can raise GDP. However, if the economy is at full-employment, expansionary aggregate demand policies will only raise prices. Real growth, that is growth in potential output, is not fueled by exports, but rather by savings, investment, productivity gains, and technological advances. Exports are the result not the cause of these factors.

The claim that export-related jobs pay 17 percent more than other jobs is equally misused. It is true that export-related jobs do pay more, but the reason has nothing to do with exports. It is simply because these jobs are largely manufacturing-related, and manufacturing pays more than most other types of occupations, whether it products are consumed at home or shipped overseas. Even the service-related components of the export process pay more, but not because of the mere fact of exporting. Again the reason is the value-added at the higher end of the service industry that is involved in exports. In fact, what the 17 percent figure demonstrates is that some types of work are better than others because they pay better and create a higher standard of living for employees and employers alike. These are the types of jobs we should be trying to retain in America, and they are the types of jobs that are likely to go to Mexico under NAFTA.

Another of the favorite claims of NAFTA supporters is the oft-repeated canard that NAFTA will create 200,000 new jobs in the U.S. This claim is based on a study by economists Gary Hufbauer and Jeffery Schott. They concluded that after five years, NAFTA would cause a net increase of about 170,000 U.S. jobs. The Office of the U.S. Trade Representative has based its claim of 200,000 new jobs on "rounding" this figure up. But, Hufbauer and Schott's estimate is of the impact of NAFTA and Mexico's domestic economic reforms. These reforms have already occurred, and by Hufbauer and Schott's own estimates this leaves only about 23,000 new jobs to be created by NAFTA.

Moreover, NAFTA proponents' approach fails to balance the export side of the story with the import story. Talking only about exports gives a misleading picture of the effect on the economy of America's total trade performance. Although there is no question that exports provide jobs, imports are siphoning off demand for domestically produced goods, especially when part of a coordinated scheme to grab market share, and thus force a drop in GDP growth and domestic jobs. As factories come on line in Mexico, the exports to us will increase dramatically, displacing American goods made by American workers.

As an American, I am concerned about how NAFTA and its twin, the General Agreement of Tariffs and Trade (GATT) will affect our future ability to steer our nation through the economic shoals of the 21st Century.

The conventional political wisdom in Washington is that all American businessmen support NAFTA because they think they see in Mexico huge new markets and a huge supply of cheap labor. That may be true of multinational companies whose CEOs have questionable allegiance to the U.S. and will go anywhere the profits are. American Felt and Filter is not a large company. Typically, a company which opposes NAFTA is the largest, or second-largest, employer in its community. These are family-owned businesses, with strong ties to their communities. Larger employers might wish to move their labor-intensive operations to Mexico to take advantage of lower operating costs. Companies like mine don't want to move and take jobs with them, and couldn't get the capital to move even if they wanted to.

But, I would like to point out that companies like mine are finding themselves increasingly caught in a tax and regulation vice. Clearly NAFTA will benefit very large companies with sufficient resources to successfully do business in Mexico. We believe smaller American companies, like mine, will ultimately be taxed and regulated to death.

NAFTA, in the end, will mean a heavier burden for small and medium-sized American business to meet. You can rest assured, Mr. Chairman, each of these new regulations will cost American jobs. As I mentioned above, the Council's member companies are among those who saw their tax burdens raised dramatically by the recent tax bill. There have also been significant regulatory burdens imposed such legislation as the Clean Air Act and other environmental laws, the Americans with Disabilities Act, and the Family and Medical Leave Act. In addition, business can apparently look forward to potential new burdens from increased environmental, occupational safety and health and other regulation.

I fear that there will be a double *coup de grace* from health care reform and the Dunlop Commission. This latter body is virtually certain to recommend a massive "reform" of our federal labor law system, once more making life more difficult for American business. I am here to tell you today, Mr. Chairman, that there is not much more in the way of additional burdens that companies like mine can stand before we will exit business altogether.

Larger companies, with their greater profits and armies of specialists and lawyers, have the means to try to protect themselves from new anti-business regulation. And if they fail, they can simply leave the United States. Small and medium-sized companies like the Council's members cannot protect themselves readily, and will bear the cost of the new regulatory burden until it finally kills them.

In sum, Mr. Chairman, I'd urge you to ask the following questions before you cast your vote on NAFTA:

(1) Is it likely that the two recent flights to lower-wage jurisdictions that New York has seen in the last thirty years will be prevented under NAFTA?

My strong belief is that under NAFTA we will see that same devastation that was visited upon the many smaller industrial cities of New York when businesses relocated to lower-wage jurisdictions.

(2) Will NAFTA alter America's ability to determine her own future course?

Again, my strong belief is that America's sovereignty will be seriously compromised by NAFTA's workings.

Thank you for your time and attention. I will be pleased to try to answer any questions you may have.

PREPARED STATEMENT OF JERRY R. JUNKINS

Introduction

Mr. Chairman and members of the Committee, I am pleased to be here to discuss the North American Free Trade Agreement ("NAFTA"). My name is Jerry R. Junkins, and I am Chairman, President and Chief Executive Officer of Texas Instruments. I am appearing today on behalf of USA*NAFTA, a coalition of 2,700 companies, large and small, and associations that support approval and implementation of the NAFTA. I am also testifying on behalf of The Business Roundtable.

One thing I've discovered since becoming actively involved in the NAFTA debate is that you can be against the agreement in a lot fewer words than you can be for it. This statement for the record lays out with facts and figures why you should be for the NAFTA. But judging from recent anti-NAFTA newspaper ads, facts and figures aren't the real issue anymore. The real issue is fear.

- o Fear of changes that have taken place in our economy over the past 20 years;
- o Fear of the intensifying global competition that our companies and workers must face every day;
- o Fear of the future.

Listen closely to the anti-NAFTA lobby's message and you hear that we cannot compete for the jobs of tomorrow in the world economy -- that we must close ourselves off and preserve the jobs we have. But that's not the real issue.

The real issue should be whether we will aggressively participate over the next two to three decades in the economic development of this hemisphere. Or, will we turn our back on this development, either hoping it won't happen or inhibiting our own ability to participate in it with roadblocks of our own making.

If our own actions foster either of the latter two scenarios, it will undoubtedly create a vacuum that our world competitors will rush to fill -- and this in our own backyard. This loss of world market share can have only one result -- a further decline in the competitiveness of U.S. business and loss of U.S jobs.

The electronics industry, and particularly the semiconductor part of it, has operated in one of the most competitive environments in the world for more than 30 years. We have lived through massive dumping in the mid-'80's, struggled with uncompetitive costs of capital for a decade because of poor fiscal policy, and fought against tariff and non-tariff trade barriers that kept markets closed to us.

One of the most important things we've learned is that if you can't compete everywhere, ultimately, you won't be able to compete anywhere. There is not permanent sanctuary to avoid world competition.

In evaluating the NAFTA I asked myself a number of questions:

1. Will the NAFTA help Texas Instruments?
2. Will the NAFTA help our employees?
3. Will the NAFTA help our country?

The answer to all of these questions is an emphatic yes.

First, the NAFTA will help my company. Texas Instruments estimates that the NAFTA will result in additional revenues of roughly a half a billion dollars by the end of the century. The additional revenues would support 2000 more TI jobs, largely in the United States.

Second, as TI gains from the NAFTA so will our employees. We are committed to investment -- and that means jobs -- in the United States, whatever the outcome of this debate on the NAFTA. With facilities in over 30 countries, we recently chose Texas to begin construction on a one billion dollar semiconductor facility. As you know, corporations base investment decisions on many criteria including such things as the health of the local economy, level of education in the workforce, and the stability of the host country, to name a few. The NAFTA will only enhance the prospects for continued investment in the United States.

Third, I have no doubt that the NAFTA will be good for our country. The NAFTA is an opportunity to place the United States at the center of a seven trillion dollar market of 370 million people. It reduces trade barriers for the United States, Canada and Mexico, without reducing them for the rest of the world. Therefore, we and our neighbors gain an advantage over competitors outside of North America.

This is why so many leading Americans agree that the NAFTA is in the best interest of our country and that the NAFTA will create U.S. jobs and strengthen our economy. For example:

- Every living former U.S. President, Democrat and Republican, supports the NAFTA.
- Every living former U.S. Secretary of Commerce, both Democrat and Republican from as far back as the Johnson Administration, supports the NAFTA.
- Every living former U.S. Trade Representative, both Democrat and Republican, supports the NAFTA.
- Forty-one out of the fifty state governors support the NAFTA.
- Nearly 300 of our leading economists, including 12 Nobel Prize winners, support the NAFTA. They recently wrote to President Clinton, stating that the NAFTA "will be a net positive for the United States, both in terms of employment creation and overall economic growth. Specifically, the assertions that NAFTA will spur an exodus of U.S. jobs to Mexico are without basis."

Perhaps most telling is the support of President Clinton for the NAFTA. As Mickey Kantor, the current U.S. Trade Representative and former presidential campaign manager, has stated, President Clinton faced "powerful political reasons for opposing" the NAFTA during the campaign last year. Despite these pressures, President Clinton recognized the NAFTA for what it is: "a pathbreaking trade agreement [that] will bring a better deal for American workers, companies and consumers, while acting as a spur for a cleaner environment and a better climate for workers on all sides of the border."

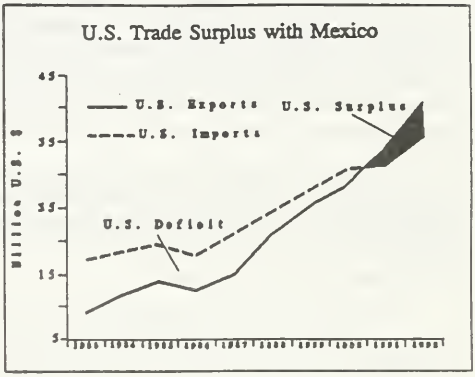
While all of these Americans support the NAFTA, many European and Japanese newspapers and business leaders oppose it. Why? Maybe it is because the NAFTA will create the most powerful economic bloc in the world -- with the United States at its center. Maybe it is because with the NAFTA U.S. companies will be able to export U.S.-made products to Mexico and Canada without any tariffs, while European and Japanese companies will not. Maybe it is because if the NAFTA fails and our political and economic relationship with Mexico deteriorates -- as it will -- the Europeans and Japanese will be able to pursue closer economic relations with Mexico and sell goods and services to Mexico in our stead.

A review of the facts makes clear why so many leading Americans support the NAFTA, while so many rivals of America oppose it. The NAFTA is a good deal for the United States and for the American worker.

The Facts About NAFTA

Fact: Mexico is a tremendous, natural market for goods and services made and provided by U.S. workers. Since 1986 when Mexican began to lower some of its barriers, our exports to Mexico have taken off:

- U.S. exports to Mexico have increased by 227 percent, from $12.4 billion in 1986 to $40.6 billion in 1992. (U.S. Dep't of Commerce)
- The U.S. trade balance with Mexico has gone from a $4.9 billion deficit in 1986 to a $5.4 billion surplus in 1992. (see chart -- White House data).
- In 1992, we had a $7.5 billion surplus in trade in manufactured goods with Mexico. (U.S. Dep't of Commerce)



- Mexico is now our third largest export market and our second largest for manufactured goods. (U.S. Dep't of Commerce)

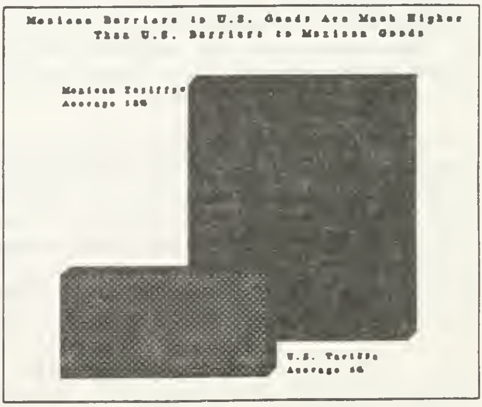
We export more to Mexico than to Taiwan and South Korea combined, more than we export to Great Britain and France combined, and more than we export to Germany and Italy combined. (U.S. Dep't of Commerce)

The significance of these exports to Mexico is inescapable: they create U.S. jobs and lots of them. With U.S. exports to Mexico reaching $40.6 billion in 1992, an estimated 700,000 U.S. jobs were supported by exports to Mexico. Over 400,000 U.S. jobs have been created by exports to Mexico since 1986. (U.S. Dep't of Commerce)

Fact: Mexico maintains unfair trade barriers that keep out U.S. products. Right now without the NAFTA, Mexico uses tough trade barriers to deny us full access to its market of nearly 90 million people. First, Mexico maintains a high tariff wall averaging 10 percent (more than 2-1/2 times over our average tariff of 3.9 percent; see chart below -- White House data).

Second, Mexico maintains strict import licensing schemes and other nontariff trade barriers that reduce U.S. exports. U.S. firms that want to sell in the Mexican market are forced to invest there in order to jump Mexico's high trade barriers, rather than simply exporting from U.S. factories.

Third, Mexico's investment regulations make it even more difficult for U.S. companies to export to our neighbor. Mexico allows relatively free investment in Mexico, but then limits what companies can do once they invest. For example:



- Companies that invest in Mexico are in many instances prevented by Mexican law from purchasing U.S. parts and components.

- Mexican law requires that foreign-owned production facilities export a significant percentage of their output, typically to the United States. For example, Mexico's Auto Decree requires that any imports of vehicles by an auto manufacturer in Mexico be matched by double the value in exports.

Fourth, Mexico maintains significant barriers to U.S. services exports, impeding many of our most competitive industries. U.S. services companies are frequently subject to discriminatory and nontransparent licensing and certification requirements. U.S. services companies are often required to establish a presence in Mexico, hiring Mexican instead of U.S. workers.

This is the situation today, without the NAFTA. Mexican policies continue to hurt U.S. exports and competitiveness and to cost U.S. jobs. It has been unacceptable for years, and despite some recent changes in Mexican law, it is still unacceptable.

Fact: NAFTA levels the playing field. The NAFTA, quite simply, will increase U.S. exports and create U.S. jobs by getting rid of these unfair Mexican trade barriers. Among the benefits the NAFTA will bring are the following:

- Removal of all tariffs between the United States, Canada, and Mexico. Fifty percent are removed the first day, with most of the remaining tariffs eliminated within five to ten years.
- Elimination of non-tariff barriers such as import and export restrictions, customs user fees, and duty drawback programs.
- Total market access for U.S. agricultural products within 15 years, which is a critical issue as Mexico is our fastest growing agricultural export market. NAFTA will increase U.S. agricultural exports by about $2-2.5 billion per year. (U.S. Dep't of Agriculture)
- Elimination of most restrictions regarding investment.
- Access for U.S. financial services providers to what traditionally has been a closed Mexican market.
- Elimination of virtually all barriers to trade in services.
- Access to Mexico's $6 billion per year telecommunications market.
- Strict rules of origin to preserve the benefits of the agreement for the NAFTA countries and to prevent other nations from using Mexico as an export platform to flood the U.S. market.
- Phase out periods of up to 15 years for import-sensitive goods.
- Emergency safeguards to help import-sensitive industries adjust to increased competition.

Since Mexico's trade barriers are so much higher than ours, removal of trade barriers under the NAFTA will increase U.S. exports much more than it will affect U.S. imports.

Fact: NAFTA removes incentives to transfer production to Mexico. Some people fear that the NAFTA will lead U.S. companies to export U.S. jobs by investing in Mexico instead of the United States. They have it backwards. The fact is that in many instances U.S. companies invest abroad rather than exporting from the United States in order to jump foreign trade barriers. By removing Mexican trade barriers, the NAFTA eliminates a key incentive to transfer production to Mexico. A vote for the NAFTA is a vote to remove Mexican trade barriers, spur U.S. exports of goods and services, and create U.S. jobs. A vote against the NAFTA is a vote to retain Mexican trade barriers and export U.S. jobs.

Fact: NAFTA will increase U.S. competitiveness. The NAFTA will create the world's largest trading zone with over 370 million people generating $7 trillion dollars in goods and services. By providing preferential access to Mexican markets for U.S.-made products, the NAFTA will give U.S. industry a competitive advantage with regard to our rivals in Japan and Europe.

Fact: By increasing exports to Mexico, NAFTA will create high-paying U.S. jobs. As Secretary of Labor Robert Reich has stated, "When NAFTA brings down tariffs on both sides, the 'giant sucking sound' won't be American jobs, it will be American products going to Mexico. The result will be thousands more jobs here."

Every reliable study that has been done on the NAFTA's effect on employment in the United States has shown that there will be a gain of jobs. The Administration estimates that the NAFTA will create 200,000 jobs by 1995. The U.S. International Trade Commission conducted a review of economic studies earlier this year and concluded that the leading studies "all find that aggregate U.S. employment rises as a result of NAFTA." The Congressional Budget Office recently agreed, stating, "U.S. workers [will benefit] from a net increase in jobs and income."

The NAFTA likely will result in some worker displacement, and we must be sensitive to this concern, while looking at it with a proper perspective. For example, the Institute for International Economics has estimated that 145,000 workers will be displaced over 5 years by the NAFTA, as compared to 315,000 workers who will gain jobs because of the NAFTA, resulting in a net gain of 170,000 U.S. jobs. The impact of the limited worker displacement will be absorbed in the dynamic U.S. economy, which has an average labor mobility of 31 million jobs a year. (Bureau of Labor Statistics) In addition, the business community, as well as the Administration and many in Congress, supports the adoption of an effective adjustment assistance and worker retraining program.

The job creation studies and statistics are impressive. But it is important to remember that these statistics represent real exports that will create real jobs for real people in your states. For example:

- General Electric's operations in Schenectady, New York expect great gains from the NAFTA. Mexican purchases of U.S.-made products like railroad locomotives, aircraft engines, gas turbines, and sophisticated medical electronics will increase as Mexican economic development accelerates. GE was recently awarded a contract for $200 million to assist in the construction of a power plant in Mexico, which will generate more than 700 employee-years of work in Schenectady and Greenville, South Carolina.

- Marley Pump company of Davenport, Iowa produces submersible pumps, mechanical and electronic leak detection equipment, and a sonic technology tank gauging system for gasoline service stations under the name of Red Jacket. Red Jacket has already begun to receive orders from PEMEX, for equipment to be installed in 200 new service stations or used in upgrading existing stations throughout Mexico. This product line has been extremely successful in Mexico.

- Chrysler Corporation of Highland Park, Michigan plans, with the passage of NAFTA, to export 25,000 vehicles to Mexico by 1995 and 80,000 by the year 2000. These sales will support 4,000 U.S. jobs by 1995, including employees of Chrysler and its suppliers.

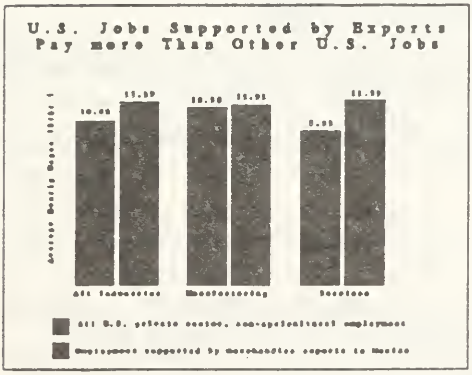
- Marley Cooling Tower Company of Olathe, Kansas is a leading manufacturer of cooling towers for power generation and heavy industrial markets. With the implementation of the NAFTA, Marley plans to export high value components for cooling towers to Mexico to be incorporated into a final product. Additionally, Marley received a $1.7 million order from Central Federal Electric in Mexico in which all material will be shipped from the United States. Marley believes that with the implementation of the NAFTA, the prospects of receiving larger jobs will increase.

- Butler Manufacturing company of Kansas City, Missouri manufactures pre-engineered building systems. Since import duties were lowered in 1988, Butler has been able to increase its business in Mexico twenty-fold. Butler has added marketing and construction staff in the Kansas City office. It has also been able to maintain staff at 3 U.S. plants during the recession by manufacturing systems for export. With the implementation of the NAFTA, import duties on Butler systems will be eliminated completely, making Butler more competitive in Mexico.

- IBP Equipment, Inc. of Wabasha, Minnesota is a small company that manufactures machine tools and has been in business for 25 years. With the implementation of the NAFTA, IBP expects to double or triple its exports to Mexico, increasing employment by 25 percent.

- Johnson & Johnson of New Brunswick, New Jersey has increased U.S. employment by 500 jobs as a result of trade with Mexico since 1986, and 1,000 Johnson & Johnson jobs have been retained because of increased trade with Mexico. An estimated 800 more U.S. positions will be created as a result of trade with Mexico, should the NAFTA be approved. Johnson & Johnson notes that it has created some jobs in Mexico, but that many more have been created in the United States. "The bottom line is that we have a good partnership that has helped both sides of the border."

- Pacer Corporation of Custer, South Dakota has been mining and processing industrial minerals in the southern Black Hills of South Dakota for over 60 years. Pacer is a small, 14 employee firm that has struggled to develop export markets. If the NAFTA is implemented, Pacer expects to make a major effort to dramatically increase its business in Mexico, which will result in more South Dakota jobs.

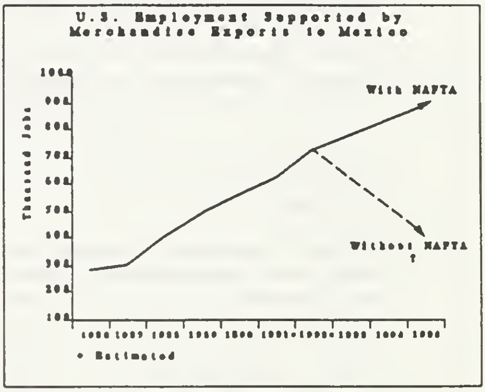


These jobs won't be flipping burgers either. The jobs that the NAFTA will create will be good, high wage jobs. Jobs related to exports to Mexico pay $3,500 more per year than the average U.S. wage. (U.S. Dep't of Commerce) Wages related to exports to Mexico are higher than the average U.S. wage in both manufacturing and services, as well as all industries. (see chart alongside – White House data).

A vote for the NAFTA is a vote for a high-wage, high-productivity, high-employment economy.

Fact: If NAFTA fails, the U.S. economy not only will forego job gains, but will lose jobs that currently exist. Many of the jobs created by trade with Mexico are due to its recent, partial economic liberalization. The NAFTA not only further opens Mexican markets to U.S. exports, thereby creating U.S. jobs, it prevents Mexico from reimposing the barriers to U.S. goods and services that it so recently removed.

If we reject the NAFTA, we cannot expect Mexico to stand idly by. Rejection of the NAFTA will leave Mexico free to close their markets to U.S. goods and will strengthen opponents of the Salinas Administration, who would like nothing better than to do so. Mexico may also choose to pursue a trade alliance with our competitors in Japan or Europe in order to continue their economic development.



Either result will decrease U.S. exports and cost U.S. jobs. Clinton Administration officials have estimated that 400,000 U.S. jobs could be lost if the NAFTA is rejected by Congress. (see chart alongside -- White House data). At stake with Congress's vote on the NAFTA is not only the approximately 200,000 jobs that will be created if it is approved, but also the hundreds of thousands of U.S. jobs that will be lost if it is rejected.

Moreover, rejection of the NAFTA would have long-term consequences in the rest of Latin America. Latin American nations are watching what we do with the NAFTA, because they have recently opened their markets and their economies, and they want free trade with the United States. If the United States rejects free trade with Mexico -- and by proxy with Latin America -- these countries, like Mexico, may close their markets or pursue preferential trading relationships with Europe or Japan instead of the United States. Again, either result would reduce U.S. exports and cost U.S. jobs.

Myths and Realities about NAFTA

In the face of these clear facts about why the NAFTA will be good for the United States, opponents posit myths that cannot stand up to hard analysis. For example:

Myth Number One: In order to steal American jobs, Mexico has deliberately reduced its wages to 57 cents an hour.

Mexican wages are not as low as some suggest. According to the U.S. Bureau of Labor Statistics, Mexican compensation (wages plus fringe benefits) currently averages $2.35 per hour, compared to $16.17 in the United States.

This wage differential becomes insignificant when the productivity of U.S. workers is considered. The average U.S. manufacturing worker adds $72,700 of value per year to the products he or she builds. In contrast, the average Mexican maquiladora worker adds $9,500 of value per year to the products he or she builds. By this measure, U.S. workers are 7.6 times more productive than their Mexican counterparts, which is more than the difference in their wages. (Gary Hufbauer & Jeffrey Schott, NAFTA: An Assessment, revised ed. Oct. 1993, forthcoming).

Opponents argue that Mexican wages are lower than they were in 1980 and that "El Pacto," the Mexican government-labor-industry program, is a plan to pursue a low-wage export strategy by keeping the Mexican worker down. They conveniently ignore that the fall in Mexican wages occurred during and was caused by Mexico's debt crisis in the early 1980's. The actual intent and effect of El Pacto has been to raise real Mexican wages by lowering inflation. Since 1987, the Mexican inflation rate has fallen below 10 percent and Mexican wages have increased 135 percent. Indeed, Mexican wages have risen 27 percent, even after adjusting for inflation. (U.S. Bureau of Labor Statistics)

Myth Number Two: U.S. companies, especially manufacturing companies, will move jobs to Mexico because of lower wages.

While these concerns are sincere, they are misplaced. As the Congressional Budget Office concluded, "contrary to commonly expressed concerns . . . Americans should not fear that the NAFTA would cause a wholesale relocation of U.S. manufacturing plants and jobs to Mexico to take advantage of the lower average wage." The idea that jobs necessarily flow to low-wage countries has been disproved by experience.

U.S. firms already are free to move to Mexico because of low wage Mexican labor, without the NAFTA, because the average U.S. tariff on Mexican goods is only 3.9 percent. The effective rate can be even lower for firms that use maquiladoras (which incidentally will be phased out under the NAFTA). Yet, far from losing jobs to Mexico, the U.S. economy has gained almost 200,000 net jobs in recent years because of trade with Mexico.

Why is this? It is because the idea that U.S. companies invest in foreign countries in order to gain access to cheap labor is simply wrong. For example, in 1990, about 75 percent of the $33.4 billion U.S. foreign direct investment total was invested in developed countries that do not have low wages. (The Stern Group, "Investment, Trade, and U.S. Gains in the NAFTA" (1992)) In fact, a frequent reason why U.S. companies invest abroad is to gain access to markets that are closed to U.S. exports. By eliminating Mexican barriers to U.S.-made goods, the NAFTA will actually reduce the flow of jobs to Mexico, not increase it.

Wages are only one of the many factors to be considered when making an investment decision. For example, according to the U.S. Office of Technology Assessment, direct labor accounts for perhaps 10 percent of costs in auto assembly plants, and even less for engines. Other important costs of production and factors in investment decisions include: (1) worker education levels and productivity, (2) the condition of infrastructure, (3) access to markets, (4) access to and cost of inputs, (5) health of the local economy, and (6) stability of the host country.

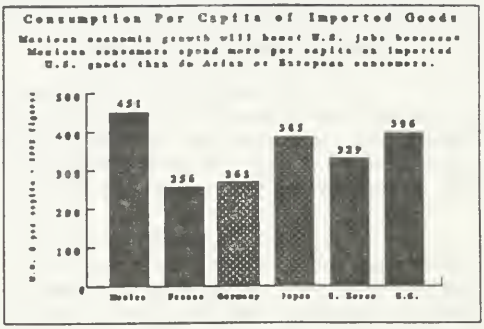
Opponents of the NAFTA really sell U.S. workers short by saying that their productivity does not enable them to compete with lower wage Mexican workers. U.S. workers are the most productive in the world. They have more skills and better education. As discussed above, many U.S. workers are over seven times more productive than their Mexican counterparts. With their higher productivity and other advantages, U.S. workers compete successfully despite their higher wages. For example, a study of automobile manufacturing costs by the Office of Technology Assessment found that although Mexico had lower wages, the total cost of delivering a car to the U.S. market was higher for a plant in Mexico than for one located in the United States ($9,180 compared to $8,770). That we at Texas Instruments believe in the advantages of U.S. workers is underscored by our recent decision to invest one billion dollars in a semiconductor facility in Dallas, Texas.

Quality Coils of Connecticut learned this lesson the hard way. Quality Coils is a producer of electromagnetic coils for refrigeration equipment, motors, relays, and signaling devices. In 1989, it closed its Stonington, Connecticut factory and moved production to Juarez, Mexico. This year, Quality Coils moved its facility back to Stonington. Quality Coil's President said "what we learned down in Mexico is that the up-front wages might look a lot less expensive; what we found is that the Connecticut worker is far more productive."

Like Quality Coils, McIlhenny Company of Avery Island, Louisiana is closing its Mexican plant and consolidating production in Louisiana in anticipation of freer trade under the NAFTA. Similarly, General Motors recently announced plans to move certain production from Mexico to its Lansing, Michigan plant, saving 1,000 U.S. jobs. These companies realize the supposed advantage of lower wage Mexican labor is a myth and that the productivity of U.S. workers makes them competitive with anyone.

Myth Number Three: Mexicans are too poor to buy U.S. exports.

Mexicans buy more U.S. exports per capita than the French, the British, the Japanese, the Germans, and the Koreans (see chart below -- Dept. of Commerce data). Mexicans buy more U.S. exports than persons in these other countries despite having significantly lower incomes. This is because Mexicans prefer U.S. products: 70 percent of all imports by Mexico are U.S. goods and services. (U.S. Dep't of Commerce) The NAFTA will help Mexico's economy grow, enabling Mexicans to buy even more U.S. goods and services, creating more U.S. jobs.



Myth Number Four: NAFTA causes environmental degradation.

There are substantial environmental problems on the U.S.-Mexico border, but the NAFTA did not create these problems. The NAFTA is part of the solution. As EPA Administrator Carol Browner said, "NAFTA presents us with a real opportunity to raise environmental standards along the border." The NAFTA has significant environmental provisions, written right into the text:

- Each country commits to "sustainable development" and "to strengthen the development and enforcement of environmental laws and regulations."
- Certain international environmental agreements, addressing the protection of endangered species, preservation of the ozone layer, and disposal and movement of hazardous wastes, will take precedence over the NAFTA.
- Each country -- and its states, provinces, and localities -- may choose its own environmental standards, which may be stricter than international standards.
- A country's environmental standards cannot be challenged unless the complaining country can prove that the purpose and effect of the standard is to keep out foreign-made products rather than to protect the environment.
- Lowering environmental standards to attract foreign investment is prohibited.
- Each country agrees to seek to raise its health and environmental standards at the level of the country with the highest standards.

With provisions like these, the NAFTA alone has earned the title accorded it by former EPA Administrator Reilly and other environmentalists as "the greenest trade agreement ever."

The Environmental Supplemental Agreement builds on the NAFTA to provide even further assurance that the environment will be improved, not degraded. As promised by President Clinton, the Environmental Supplemental Agreement contains "teeth" to assure enforcement of environmental laws.

On top of the Supplemental Environmental Agreement, U.S. and Mexican negotiators also have announced that they have reached basic agreement on a new institutional structure to promote environmental infrastructure in the border region. The institution will begin by focusing on projects to address wastewater treatment and water pollution problems along the border. The institution will also seek to mobilize sources of funding for improvements in border infrastructure.

Perhaps the "greenest" provisions of all in the NAFTA are the economic provisions. This is because the NAFTA, by developing Mexico's economy, will strengthen the financial resources and political will in Mexico for stronger environmental protection. As Kathryn Fuller, President of the World Wildlife Fund recently stated, "The receptiveness of the Mexican government to environmental concerns is an opportunity we cannot afford to lose, if we truly care about the future of environments outside our own borders."

With all of these environmental benefits, it is hardly surprising that the NAFTA and the side agreements have been endorsed by the Environmental Defense Fund, the Natural Resources Defense Council, the National Wildlife Federation, the World Wildlife Fund, the National Audubon Society, and Conservation International.

Myth Number Five: NAFTA will worsen conditions for workers in North America.

The NAFTA itself will improve working conditions by generating economic growth, which will enable all three countries to provide more jobs with higher pay in a better working environment.

The Labor Supplemental Agreement will complement the job creation of the NAFTA by assuring that each NAFTA country provides for and enforces important labor rights. Each country commits to promote the basic labor principles as embodied in its domestic laws. Moreover, each country commits to ensure the effective enforcement of its own labor laws and to promote awareness of and compliance with its labor laws. A variety of institutions are created through which each NAFTA country will exchange and publish information on labor matters, including how best to improve enforcement of each country's labor laws and standards. Finally, again as promised by President Clinton, the Agreement contains "teeth" to assure enforcement of key labor laws (including those relating to minimum wages, child labor, and health and safety).

Myth Number Six: NAFTA and the supplemental agreements undermine U.S. sovereignty.

This is simply not true. Contrary to what some have suggested, the NAFTA does not restrict the ability of federal, state, and local authorities in the United States to enact stringent health, safety, and environmental standards. Indeed, the NAFTA explicitly allows U.S. federal, state, and local health, safety, and environmental standards to be maintained, as well as strengthened.

The NAFTA requires only that standards not be discriminatory or disguised barriers to trade, and that they be based on scientific principles. These requirements are reasonable and should not threaten federal or state health, safety, and environmental laws. However, they are necessary to prevent other NAFTA countries from using such standards as disguised barriers to U.S. exports.

In regard to the supplemental agreements, the business community initially was very concerned about the supplemental agreements possibly impinging on U.S. sovereignty. However, after examining the agreements closely, we are satisfied that the agreements do not actually do so.

In particular, the supplemental agreements do not permit multinational bureaucrats to second-guess the enforcement discretion of federal, state, and local authorities. The side agreements specifically protect our right not to take enforcement action: (1) in the "reasonable exercise of discretion with respect to investigatory, prosecutorial, regulatory, or compliance matters," or (2) as a result of "bona fide decisions to allocate enforcement resources to violations determined to have higher priorities."

Finally, neither the supplemental agreements nor the NAFTA itself improperly impinges on U.S. sovereignty through the use of international dispute resolution panels. The use of dispute resolution panels, as a last resort where consultations are unsuccessful, is necessary to insulate the process from local or national politics and prejudices. The dispute resolution provisions in the NAFTA and the supplemental agreements contain provisions to safeguard sovereignty, which include, inter alia, allowing only governments and not private parties to bring challenges and using the removal of the NAFTA benefits as the ultimate enforcement measure (benefits that would not exist without the agreement anyway).

Myth Number Seven: NAFTA only helps a few industries and states.

Trade with our southern neighbor already is helping U.S. industry in every sector and all across the country. U.S. export growth has been broad-based; exports to Mexico increased in 48 of the 50 states between 1987 and 1992.

Trade with Mexico provides great benefits to our manufacturing base. Even with current high tariffs, Mexico is one of our best markets for manufactured goods, even in "import sensitive" industries such as textiles, auto parts, and steel. Here are some examples of how our trade with Mexico has soared from 1987 through 1992 in different sectors in your states:

- Arkansas's exports of transportation equipment have increased by 543 percent to $343.9 million. The NAFTA will boost these exports by eliminating Mexican tariffs of up to 20 percent, getting rid of nontariff barriers (including quotas, local content requirements, and trade balancing requirements), opening up Mexican government procurement.

- Utah's exports of scientific and measuring instruments have increased by over 2,000 percent to $6.9 million. The NAFTA will further increase exports by eliminating Mexican import licenses and tariffs as high as 20 percent.

- Oklahoma's electronic equipment exports have increased by over 1,000 percent to $23.6 million. The NAFTA will spur further exports by eliminating tariffs of up to 20 percent, opening up Mexican government procurement, getting rid of nontariff barriers in technical standards, and improving intellectual property protection.

- Delaware's chemical products exports have increased by over 480 percent to $126.8 million. The NAFTA will increase exports even more by eliminating tariffs of 10-20 percent, eliminating non-tariff barriers such as import license requirements, opening up Mexican government procurement, and improving protection of intellectual property.

- West Virginia's exports of primary metals have increased by 724 percent to $14.2 million. The NAFTA will facilitate further increases in exports by eliminating tariffs (which average 8.2% on a trade-weighted basis), opening up Mexican government procurement, and expanding the Mexican economy (which will raise demand for steel).

- Oregon's exports of lumber and wood products have grown 1,458 percent to $6.4 million. The NAFTA will encourage even more exports by eliminating tariffs of 10-20 percent and removing non-tariff barriers such as import permits and user fees.

- Rhode Island's exports of electric and electronic equipment have more than doubled (up 171 percent) to $5.4 million. The NAFTA will spur further exports by eliminating tariffs of up to 20 percent, opening up Mexican government procurement, getting rid of nontariff barriers in technical standards, and improving intellectual property protection.

- Montana's exports of crops have skyrocketed 994 percent to $2.1 million. The NAFTA will spur more exports by eliminating tariffs and phase out Mexico's onerous system of agricultural import licenses.

- Maine's exports of leather products have shot up more than 62,000 percent to $10.0 million. The NAFTA will foster further export growth by eliminating tariffs of up to 20 percent.

By eliminating trade barriers and boosting Mexico's economy, the NAFTA will continue, and accelerate, these trends of nationwide export growth and job creation.

Myth Number Eight: Our trade surplus with Mexico is a myth because it consists of capital goods.

The fact is that capital goods compose a lower proportion of our exports to Mexico (33 percent) than of our exports to the rest of the world (39 percent). Moreover, the proportion of capital goods in our exports to Mexico is going down, not up; capital goods exports to Mexico have decreased from 40 percent of the total in 1987 to 33 percent in 1992. (U.S. Dep't of Commerce)

In any event, U.S. exports of capital goods are good for our economy, not bad. Capital goods are everything from drilling equipment to electric generators, from machine tools to construction equipment. Most capital goods exported to Mexico are used to produce goods and services for the Mexican market, which is set on a healthy growth path. Such exports support high-paying manufacturing jobs in the United States. If we did not export to these goods to Mexico, other countries, like Japan and Germany, would be eager to take our place.

Myth Number Nine: All our exports to Mexico are components that get imported back into the United States as finished goods.

U.S. exports of components for assembly and production sharing operations have been shrinking as a share of all exports to Mexico -- from 32 percent in 1987 to an estimated 22 percent in 1992. An estimated 83 percent of the growth in U.S. exports in Mexico in the last five years has been for Mexican consumption, not for re-export. (U.S. Dep't of Commerce) Even for the decreasing number of exports that are incorporated into products for re-export to the United States, these exports still support U.S. jobs, an outcome that is much preferable to producing the whole good in the Far East.

Myth Number Ten: NAFTA will lead to companies investing in Mexico instead of in the United States.

With a low U.S. tariffs, companies are free to invest in Mexico now, without the NAFTA, but they generally don't (and won't) because of the competitiveness and productivity of U.S. workers. Investment in Mexico by U.S. companies is small compared to investment in the United States and to other U.S. foreign investment. Last year, U.S. companies invested $6 billion dollars in Mexico. U.S. companies annually invest over $500 billion in new plant and equipment in the United States. (1993 Economic Report of the President, Table B-52) Thus, while the U.S. economy is 24 times as large as Mexico's, U.S. companies invest over 83 times as much in the United States as they do in Mexico. Similarly, only five percent of U.S. foreign investment goes to Mexico. As the Congressional Budget Office found, U.S. investment in Mexico under the NAFTA will not harm our economy because "[t]he yearly amounts that might come from the United States are very small relative to U.S. capital markets..."

Under the NAFTA, U.S. investment in Mexico likely will increase from its current base, but far from costing U.S. jobs, this investment will increase U.S. exports. First, the increased investment will not come from what otherwise would have been investments in the United States. It will mainly come from what would have been investments in third countries -- primarily southeast Asia. Moving these investments to Mexico will greatly benefit our economy:

- U.S. investment in Mexico generates more U.S. exports than U.S. investment in other parts of the world. U.S. subsidiaries in Mexico spend 46 cents out of every dollar on exported U.S. goods and services, the highest proportion of such purchases by U.S. subsidiaries anywhere in the world. (U.S. Dep't of Commerce)

- Investment and production in Mexico supports connected jobs in the United States, especially high wage managerial, research, and distribution jobs.

Second, the NAFTA will increase purchases of U.S. exports by U.S. subsidiaries in Mexico by eliminating the many unfair Mexican investment rules mentioned earlier, which require companies that invest in Mexico to export more to and import less from the United States.

Third, the NAFTA will enhance the competitiveness of U.S. industry by enabling it to expand regionally. As the Congressional Budget Office found, this increased competitiveness will place the United States "in an enhanced position to attract capital from the rest of the world." This increased capital will increase U.S. competitiveness and create U.S. jobs.

Our main competitors, Japan and Germany, recognize the challenges and opportunities presented by the global economy and are responding by investing regionally in Asia and Eastern Europe, increasing their competitiveness as well as establishing themselves in growing markets. We need to do the same with the NAFTA or we risk declining competitiveness in the global economy.

Myth Number Eleven: NAFTA threatens prospects for political reform in Mexico.

I am here to testify as a businessman, not as a political expert. But it does seem clear that the Salinas Administration has taken the most serious steps toward Mexican political reform in half a century. For example, to prevent electoral fraud, Mexico has spent $2 billion to provide photo ID cards to Mexican voters and to clean up the register of voters. Mexico also recently passed reform legislation that imposed the country's first restrictions on political fundraising and gave opposition parties greater access to the media.

Congressman Hamilton, Chairman of the House Committee on Foreign Affairs, recently said, "NAFTA is also the most effective, least intrusive step the U.S. can take to promote democratic political change in Mexico. Mexico's political leadership has been divided over economic reform. But NAFTA's approval is likely to tip the Mexican balance permanently toward the reformers. Economic growth and exposure to U.S. society will encourage the development of a strong middle-class political culture in Mexico."

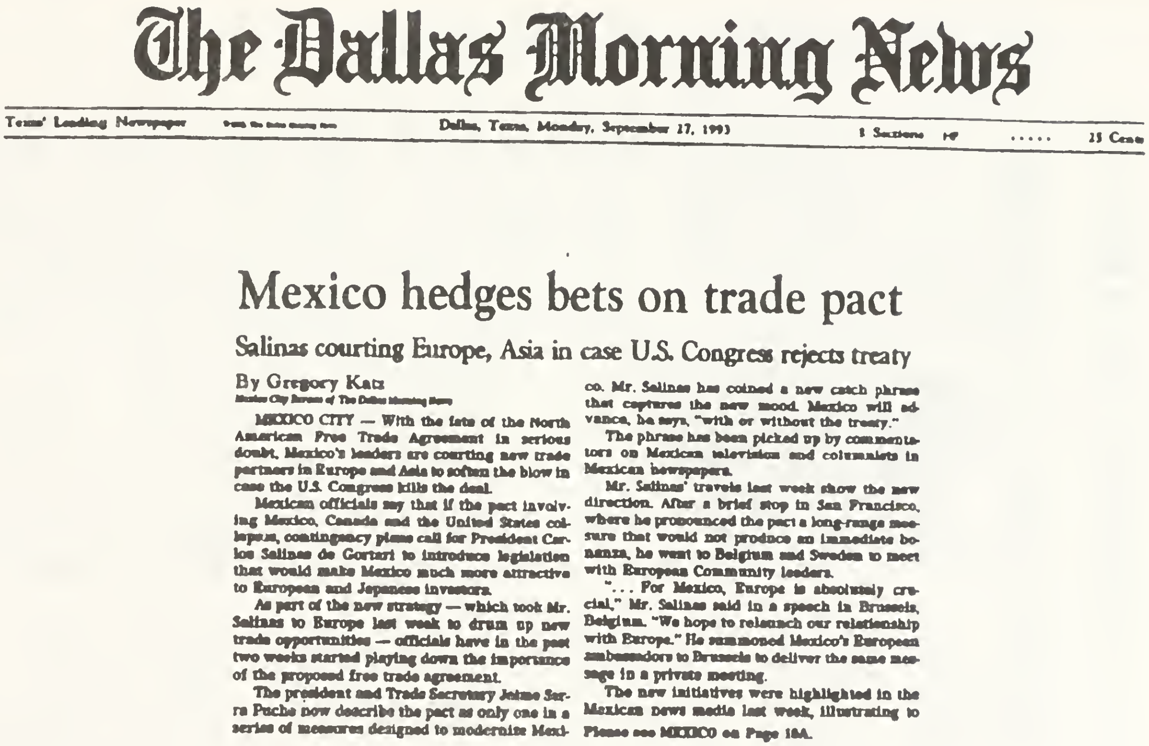
Conclusion

In summary, as you try to cut through all the rhetoric, facts and figures, I believe what you are deciding is how effectively the U.S. will participate in the economic growth of Canada, Mexico and the rest of Central and South America and how much of our advantage you want to cede to our world competitors.

Yes, there will be changes resulting from this agreement. But they will be small compared with what has been happening in industry in the last 10 years and what will continue to happen in the next 10 years as America works to improve its competitiveness. The sooner we embrace this change, the more gradual and less cataclysmic the effort when the change takes place.

We can't hide from it.

Thank you for giving me this opportunity to tell you why the NAFTA is important to our country and why it deserves your strong support.



The Dallas Morning News

Texas' Leading Newspaper   Dallas, Texas, Monday, September 27, 1993   3 Sections   25 Cents

Mexico hedges bets on trade pact

Salinas courting Europe, Asia in case U.S. Congress rejects treaty

By Gregory Katz
Mexico City Bureau of The Dallas Morning News

MEXICO CITY — With the fate of the North American Free Trade Agreement in serious doubt, Mexico's leaders are courting new trade partners in Europe and Asia to soften the blow in case the U.S. Congress kills the deal.

Mexican officials say that if the pact involving Mexico, Canada and the United States collapses, contingency plans call for President Carlos Salinas de Gortari to introduce legislation that would make Mexico much more attractive to European and Japanese investors.

As part of the new strategy — which took Mr. Salinas to Europe last week to drum up new trade opportunities — officials have in the past two weeks started playing down the importance of the proposed free trade agreement.

The president and Trade Secretary Jaime Serra Puche now describe the pact as only one in a series of measures designed to modernize Mexico. Mr. Salinas has coined a new catch phrase that captures the new mood. Mexico will advance, he says, "with or without the treaty."

The phrase has been picked up by commentators on Mexican television and columnists in Mexican newspapers.

Mr. Salinas' travels last week show the new direction. After a brief stop in San Francisco, where he pronounced the pact a long-range measure that would not produce an immediate bonanza, he went to Belgium and Sweden to meet with European Community leaders.

". . . For Mexico, Europe is absolutely crucial," Mr. Salinas said in a speech in Brussels, Belgium. "We hope to relaunch our relationship with Europe." He summoned Mexico's European ambassadors to Brussels to deliver the same message in a private meeting.

The new initiatives were highlighted in the Mexican news media last week, illustrating to

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Mexico braces for delays in trade treaty's passage

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Continued from Page 1A.

the public that the Salinas administration is not pinning all its hopes on the whims of a potentially hostile U.S. Congress.

"The president is looking at diversification," said Mr. Serra Puche, the trade secretary, in a nationally televised interview. "He wants to attract foreign investment from Europe and gain better access to the markets there for Mexican products."

Mr. Serra Puche also emphasized the long-range nature of the free trade pact, stating that it would take 15 years to implement. He said it would take decades to develop the potential benefits of the accord.

A Mexican diplomat said the new strategy will protect Mexico if Congress, amid a wave of protectionist, anti-Mexican sentiment whipped up by Dallas businessman Ross Perot and others, defeats the free trade proposal.

"If NAFTA is defeated, the next day — or in the first week or two — Mexico will have new foreign investment legislation that has been requested by European and Japanese investors," he said. "If the Japanese see that the legislation gives them safety, they may come with huge, enormous investments."

He said that in some ways this might be preferable to having a free trade agreement with the United States because Japanese businessmen are "long-range planners" while U.S. investors are "poker players" obsessed with short-term profits.

As part of the new emphasis on other partners, Mr. Salinas has — in the past two weeks — said that Mexico's economy will continue to grow because of free trade with Chile, Venezuela, Colombia and other Latin American countries.

The new strategy seems to have several goals. One is to calm anxious foreign investors who may be tempted to remove their money from the Mexican stock market because the future of the free trade pact is so unclear.

Another goal is to dampen the blow to the president's prestige if the U.S. Congress decides Mexico is not worthy of a free trade deal. This is vital because Mr. Salinas' successor faces election next August and his Institutional Revolutionary Party could be weakened if the trade pact fails.

Carlos Salinas de Gortari . . . says Mexico will advance "with or without the treaty."

"Everything the president is saying is for the benefit of investors," said Adolfo Aguilar, a professor with the Center of North American Studies at the National University of Mexico. "He is trying to control the psychological impact so that there will not be an investor panic if the treaty is not passed."

Mr. Aguilar said the long delay in the treaty's ratification has already weakened Mr. Salinas' position inside Mexico and has left his party open to a tougher election challenge next year.

"The president has put so much emphasis on NAFTA that his political leverage is down," he said. "By mid-November it will be clear that NAFTA will not be approved this year and that sends political signals that are detrimental to the president because no one knows if it will be approved next year."

Initial signs are that Mr. Salinas' new strategy has not calmed investor fears. In a tailspin that ended last Wednesday, the Mexican stock market lost nearly 9 percent of its value during nine days of consecutive losses.

Newspapers have been filled with negative news from the United States, including the decision of House Majority Leader Dick Gephardt to oppose the pact and the warning by William Daley, President Clinton's free trade czar, that the agreement may not be voted on until next April.

John Rhoeds, a director of the Casa de Bolsa brokerage firm, said he does not agree with the president's assertion that Mexico will prosper with or without the treaty. He said hard times are ahead if the free trade pact collapses.

He said the government will face tremendous pressure to devalue the Mexican peso if the agreement does not go through — a prospect that could cause Mr. Salinas and his party serious political problems. The country is gripped already by a serious business slowdown that would worsen if the pact is rejected, he said.

"You would get a liquidation by foreigners with money here," Mr. Rhoeds said. "Right now, 73 percent of the short-term bonds are held by foreigners, and these people might leave. Mr. Salinas is trying to be realistic and protect himself. If it doesn't go through, and people aren't pre-conditioned, it could be trouble."

The widely publicized political problems the pact faces in Washington have already had a sharp effect on the willingness of U.S. companies to make commitments in Mexico, he said.

"I went to New York recently and talked with the directors of 10 midsize brokerage firms about linking up with us, and they all said they wanted to wait and see what happens with NAFTA," he said. "A lot of U.S. institutions with investments in Mexico have decided to pull out for the short term, especially with the election next year."

Mr. Salinas' courtship of new investments from Europe and Japan also is seen as a subtle effort to coax U.S. lawmakers to support the free trade agreement rather than risk losing the Mexican market to the United States' major rivals on the world economic stage.

"Mr. Salinas is trying to exert some pressure by creating the impression that failure to approve NAFTA will put the U.S. at a competitive disadvantage with Europe and Japan," said Susan Kaufman Purcell, a Latin America specialist at the Americas Society in New York. "It makes perfect sense. It could help people who support NAFTA make a stronger argument."

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PREPARED STATEMENT OF MICHAEL KANTOR

THE ADMINISTRATION'S CASE FOR NAFTA

Mr. Chairman, members of the Committee, I am pleased to appear before you today, along with Secretary of State Warren Christopher and Secretary of the Treasury Lloyd Bentsen to set forth the Clinton Administration's case for the North American Free Trade Agreement with the recently negotiated supplemental agreements. Yesterday, Labor Secretary Robert Reich and EPA Administrator Carol Browner, and I appeared before the House Ways and Means Committee. These two days of hearings will leave no doubt why the approval of NAFTA is strongly in the national interest.

NAFTA AND THE ADMINISTRATION'S ECONOMIC STRATEGY

Against a background of intense debate, a mountain of misinformation, and considerable hyperbole, it is important to remember NAFTA really does a very simple thing. It eliminates over time tariffs and non-tariff barriers among the United States, Mexico and Canada, creating the world's largest market: 370 million people and $6.5 trillion of production.

That vast new market makes us more competitive against Europe and Japan and will result in the creation of new jobs. And it is a vital element of the President's overall economic strategy.

President Clinton and this Administration are committed to building the strongest, most productive, most competitive economy in the world. By doing so, we will expand high wage and high skill job opportunities for United States workers and for their children who will be entering the work force.

We are finally facing the fact that our economy, as well as the global economy, is changing.

As all of you are all too aware, over the last twenty years, real wages and job opportunities for unskilled workers in manufacturing have declined. But at the same time, technological advances have made American workers more productive. Technology has revolutionized the world, as well. Our economy is no longer self-contained. We compete in a global economy, where capital and technology are mobile. These trends are here to stay. The question is not whether we adapt to them, but how.

Our economic strategy started with the President's economic package: putting our economic house in order by attacking the budget deficit, increasing public and private investment, and undoing some of the unfairness in the tax code by making upper income taxpayers pay their fair share of the burden. We are beginning to see the benefits of Congress's approval of the package last month: interest rates at a thirty year low, job creation and a growing economy.

Our drive for health care reform is fundamentally motivated by the desire to secure for every American access to the health care that they and their families need. But the soaring cost of health care also makes our strongest corporations uncompetitive and threatens the existence of many small businesses. Similarly, our initiative to reinvent government is intended to make government more effective and accessible, but it will also reduce the size and cost of government, freeing up resources that can be used for productive investment.

These initiatives—along with welfare reform, changes in education, worker training, investing in technology—all work in pursuit of the same objective: to build a more productive and competitive economy.

Our trade policy, including NAFTA, is an essential part of that strategy. Since we are producing more with fewer workers, opening up new markets is the key to new job creation and economic growth. Closing ourselves off from the world does nothing to improve our competitiveness and only deprives us of new economic opportunities. As President Clinton has said, we must compete, not retreat behind our borders.

This is, of course, precisely what our competitors are doing. The European Community is expanding trade with Eastern Europe and the countries of the former Soviet Union. Japan is searching out new opportunities in China, Malaysia, Indonesia and the rest of Asia.

In this intensely competitive global economy, NAFTA presents an opportunity to compete freely in a vast new market: 90 million people in Mexico, in a fast growing area, hungry for U.S. goods. It is also a step to an even larger market—400 million people throughout Central and South America and the Caribbean.

The United States seeks to open markets everywhere and trade and compete worldwide. We have nearly $200 billion each year in two-way trade with the EC; through APEC, we seek expanded trade with the rapidly growing nations of Asia.

Japan is a major market for U.S. products, despite the major and persistent barriers that we are committed to breaking down. Completing the Uruguay Round—taking down tariff and non-tariff barriers worldwide, and writing new rules for the international trading system—remains a top priority for us.

But it is no accident that Canada is our number one trading partner, despite having a population of only 27 million, and Mexico has become our third leading trading partner, despite its historic policy of maintaining a closed economy. Shared borders and geographical proximity do matter, even in this globalized economy.

And we have a natural advantage, and a great opportunity, to expand trade and investment with Mexico, and then with the rest of Central and Latin America and the Caribbean. Many of those countries have chosen, in recent years, to cast off the controls on their economies and the shackles on their political systems. They took these steps at the urging of the United States.

Tariffs have fallen and non-tariff barriers have been reduced. Since 1989, U.S. exports to Latin America and the Caribbean increased over 50 percent and are growing at over twice the rate of U.S. exports to the rest of the world, making this region our second fastest growing market. They have become a growing market for U.S. products; 43% of Latin American imports come from the United States.

Chile, Venezuela, Argentina and many other nations are intently following the NAFTA debate. The possibility of NAFTA accession provides an incentive for further trade and investment liberalization in the region. The decision to reject NAFTA would have profoundly negative economic and political consequences throughout the hemisphere.

The companies, farmers and workers of the United States are world-class competitors. We lead the world in everything from airplanes and computers, to wheat and soybeans. Without fanfare, and with much pain from adjustment, we have returned to being a world class manufacturer of automobiles and steel. We have regained our position as the world's leading exporter. But expanding our access to markets and assuring that the markets of other nations are as open to our goods and services as ours are to theirs is absolutely critical to our success at creating economic growth and jobs.

Indeed, one of the reasons this administration supports this agreement so strongly is that we have heard from U.S. workers and businesses so many positive stories of how they are benefiting from trade with Mexico and expect to expand those opportunities with NAFTA.

Recently I visited the Atlanta Saw Company, a small, 80 percent employee-owned company that employs 240 people making high quality saw blades. In 1975, Atlanta Saw entered into a joint venture to manufacture in Mexico as the only means of accessing that market due to the existence of a 40% tariff on their products. As tariffs have dropped over the past few years, Atlanta Saw's exports to Mexico have increased sixfold. More importantly, with the NAFTA, the company intends to close down its joint venture and concentrate all its production in Atlanta, which will create jobs for Atlanta.

Or consider Quaker Fabric Corporation, located in Fall River, Massachusetts, which manufactures upholstery fabric for the furniture industry. Over the last two years, Quaker's Mexican export operation has created 125 new jobs in Fall River. The NAFTA will eliminate the 15% duty that Quaker is currently paying which will make the company even more competitive in that market.

These are just a couple of examples of what businesses and workers experience now when trying to trade with Mexico: excitement with the great opportunities in a huge, fast-growing market of 90 million people that is hungry for U.S. goods; and the frustration that comes from having those opportunities limited with high tariffs and non-tariff barriers.

In the new global economy, there are challenges and risks, as well as great opportunities. I am confident that American workers are up to that challenge—and will reap the benefits. One reason I am so confident is that we are not going into NAFTA blindly. We do not have to speculate about the results from this change; we have gone through a seven year trial run.

JOB GROWTH AND TRADE WITH MEXICO

Starting in 1986, Mexico, recognizing that its economic policies had been disastrous, began to lower trade and investment barriers. The results have been dramatic for the United States:

- From 1987 to 1992. we transformed a $5.7 billion trade deficit with Mexico into a 55.4 billion trade surplus.

- U.S. exports to Mexico increased from $12.4 billion in 1986 to $40.6 billion in 1992, with increases coming across the board from computers to services to agriculture.
- Mexico has become our third leading export market, and our second leading market for manufactured exports ($34.5 billion) and our third largest market for agricultural products ($3.7 billion).
- 84% of this growth in exports has been exports for Mexican consumption.
- 400,000 U.S. jobs related to exports to Mexico were created.

The success of the past seven years has occurred even though Mexican trade barriers—tariff and non-tariff—remain far higher than ours. Bringing down the remaining barriers, which is what NAFTA does, will ensure continued growth of U.S. exports to Mexico, which have been such a bright spot in our economic picture for the past seven years.

Virtually every responsible study—and there have been over two dozen—concludes that NAFTA will produce a net gain in jobs or an increase in real wages in the United States. The consensus is that with NAFTA, an additional 200,000 jobs related to exports will be created in the U.S. by 1995. While the studies acknowledge that there will be some jobs lost in certain sectors, they agree that the jobs lost will be a relatively small number compared to the jobs that are lost in the United States overall, because of defense conversion, corporate downsizing, and technological change. This is true because Mexico's economy is only one-twentieth the size of ours and our tariff and non-tariff barriers are already low.

On September 1, 284 economists, including 12 of the living American Nobel laureate economists, wrote to the President saying:

> While we may not agree on the precise employment impact of NAFTA, we do concur that the agreement will be a net positive for the United States, both in terms of employment creation and overall economic growth. Specifically, the assertions that NAFTA will spur an exodus of U.S. jobs to Mexico are without basis. Mexican trade has resulted in net job creation in the U.S. in the past, and there is no evidence that this trend will not continue when NAFTA is enacted. Moreover, beyond employment gains an open trade relationship directly benefits all consumers.

Despite the overwhelming evidence, some have argued that 5.9 million U.S. jobs are "at risk" if NAFTA is adopted. They got that number simply by calculating the number of U.S. jobs in industries where wages account for more than 20% of the value of output. It includes high wage, high skill sectors such as sonar equipment, aerospace, medical equipment and telecommunications where credible studies agree that there will be a future job gain due to NAFTA. It also includes non-traded sectors, such as bakers, which do not compete with Mexico at all.

We believe the critics are looking at the future through a rear view mirror. To the extent that there has been job loss to Mexico, it is precisely because of trade distortions in the current trade relationship with Mexico, which we seek to change through NAFTA.

NAFTA AND THE STATUS QUO

The status quo in our trade relationship with Mexico is, quite simply, unacceptable. NAFTA will level the playing field for U.S. workers. It makes the rules fair and ends an unbalanced trading relationship that has existed between the United States and Mexico that has worked to disadvantage U.S. companies and workers producing in the United States.

Historically, Mexico has been a closed, state-controlled economy. To shield its industry and agriculture from competition, it relied on tariffs as high as 100% and a full range of non-tariff barriers, including domestic content requirements, restrictions on investment, performance requirements to keep out exports, and import licensing requirements. The result was that Mexico was largely closed to imports. Its economy was characterized by inefficient, protected producers, which contributed to widespread poverty and did not serve the interests of Mexico's people.

Perhaps the closed Mexican economy reflected the historical Mexican mistrust of, and antagonism toward, the United States. For whatever reason, Mexico remained largely closed to U.S. business until U.S. and Mexican law combined to produce the maquiladora program. But this program hardly resulted in an open Mexican market.

The maquiladora program resulted in trade preferences and incentives for companies to locate assembly plants in Mexico to produce for the U.S. market. It gave products assembled in Mexico these preferences while at the same time maintaining all of Mexico's trade and investment barriers. In fact, these maquiladora plants were not allowed to sell in the Mexican market. The program thus created an artificial "export platform" in Mexico, with products assembled in maquiladora plants being required to be exported to the U.S. By 1992, there were over 2,000 maquiladora factories operating in Mexico, the overwhelming number of which were established by U.S. and Mexican corporations, employing more than 400,000 Mexican workers.

In addition, Mexican import protection and rules requiring firms selling in the Mexican market to locate in Mexico made it difficult if not impossible for firms producing in the U.S. to sell into Mexico. Non-tariff barriers—licensing, citizenship requirements, and a host of other regulations were especially hard on small businesses in the U.S., which do not have the resources to navigate through the bureaucratic maze in Mexico.

The result of the maquiladora program and Mexican protection has been to distort U.S.-Mexican trade, limiting exports from the U.S. to Mexico and exaggerating exports from Mexico to the U.S. NAFTA transforms the situation by opening Mexico's market and eliminating the distortions created by the maquiladora program. Under NAFTA, Mexico eliminates its import protection and the maquiladora program is also effectively eliminated, permitting firms to sell in the Mexican market without restriction.

Much of the opposition to NAFTA reflects justifiable concern about the policies of the past that have disadvantaged U.S. workers. Despite Mexican progress in voluntarily opening markets, Mexican tariffs remain, on the average, 2.5 times higher than ours. By contrast, over 50% of our imports from Mexico already enter duty-free. Our average tariff on imports is only 4%.

Mexico currently has no obligation to continue recent market-opening moves on which thousands of U.S. jobs already depend. NAFTA will not only lock in current access but expand that access.

NAFTA will require relatively little change on our part—while requiring Mexico to sweep away decades of protectionism and over regulation. NAFTA will eliminate especially burdensome tariffs and non-tariff barriers in a number of key sectors where the U.S. is competitive vis-a-vis Mexico, such as autos and agriculture.

NAFTA lets U.S. workers compete on a level playing field with fair rules. And we are confident, in those circumstances, U.S. workers will succeed.

MAJOR FEATURES AND BENEFITS OF NAFTA

Reduction of Mexican Tariffs: Under NAFTA, half of all U.S. exports to Mexico become eligible for zero Mexican tariffs when NAFTA takes effect on January 1, 1994. Those exports which will be tariff-free include some of our most competitive products, such as semiconductors and computers, machine tools, aerospace equipment, telecommunications equipment, electronic equipment, and medical devices. Within the first five years after NAFTA's implementation, two-thirds of U.S. industrial exports will enter Mexico duty-free. That makes U.S. products more competitive.

Looking at the reduction in Mexican tariffs required by NAFTA, the major companies of the computer industry, including Apple, Hewlett-Packard, Sun Microsystems, IBM, and Compaq wrote on June 11:

> One of the concerns often expressed about the NAFTA is that it will result in production and jobs moving from the United States to Mexico. For the computer industry, just the opposite is true. Today, U.S. tariffs on computer and computer parts are 3.9% and 0%. Mexican tariffs on the same products range from 10–20%. The NAFTA will reduce those Mexican tariffs and make it more economic and efficient to serve the Mexican market through exports from the U.S.
>
> The NAFTA will also foster Mexican economic development in a way that will increase the ability of Mexican business and consumers to purchase our products. With the sharply reduced Mexican tariff structure, the NAFTA means increased opportunity, increased U.S. production and an increase in U.S. jobs.

Removing Mexican non-tariff barriers. NAFTA reduces or eliminates numerous Mexican non-tariff barriers which today require U.S. companies to invest in Mexico or manufacture in Mexico in order to supply the Mexican market. For example, NAFTA will eliminate the requirements that force U.S. companies to purchase Mexican goods instead of U.S.-made equipment and components. Moreover, NAFTA abolishes the requirements that force our companies to export their production, usually to the United States, instead of selling directly into the Mexican market. Requirements that make U.S. companies produce in Mexico in order to sell there will also be phased out.

Opening up Trade in Services. NAFTA will open new markets for the delivery of U.S. services to Mexico and Canada, where service companies are already large and growing. NAFTA will allow U.S. service firms to provide their services directly from the United States on a non-discriminatory basis, with any exceptions clearly spelled out. Furthermore, U.S. service companies will benefit from the right to establish, if they so choose, in Mexico or Canada. NAFTA opens the Mexican market to U.S. bus and trucking firms, financial service providers, and insurance and enhanced telecommunications companies, among others.

Protecting U.S. copyrights, patents, and trademarks. NAFTA will ensure a high level of protection under Mexican law for U.S. owners of patents, copyrights trademarks, trade secrets, and integrated circuits, including strong safeguards for computer programs, pharmaceutical inventions and sound recordings. NAFTA obligates both Mexico and Canada to enforce intellectual property rights against infringement, both internally and at the border. By protecting intellectual property rights, NAFTA will increase trade and diminish losses from counterfeiting and piracy.

U.S. motion pictures, music and sound recordings, software, book publishing and other creative industries lead the world, and are crucial to the high-wage economy that we intend to build. The copyright industries are one of the largest and fastest growing segments of the U.S. economy, employing 5% of the U.S. work force, and exporting, by a conservative estimate, $34 billion in 1990. Eric Smith, Executive Director and General Counsel of the International Intellectual Property Alliance recently wrote:

> We expect growth of this magnitude to continue—aided not insignificantly by the opening of new foreign markets previously closed or limited (as a practical matter) due to piracy. Mexico is one of these markets and piracy is also very high throughout Latin America.
>
> In short, NAFTA will be a key engine of growth in our industry.

The Benefit to Small Business. I have noted the statements of several sectors citing the benefits which will result from NAFTA; that sentiment is widely held in the business community, by businesses large and small. Indeed, small businesses stand to be among the major beneficiaries of NAFTA. Small businesses are not well-equipped to employ attorneys and other professionals to wrestle with the tariff and licensing requirements which presently block the way to the Mexican market. With tariffs reduced or eliminated, and non-tariff barriers coming down, U.S. small business, which makes up a growing share of U.S. exports, will be able to sell into the Mexican market.

Winners from NAFTA. We expect that our exports of a broad range of products and services will significantly increase well beyond levels that were expected without the agreement. Among them are:

—*Telecommunications:* NAFTA will eliminate duties on 80% of U.S. exports immediately, and virtually all will be duty-free within five years. Mexico is our second largest market, and plans to spend $13 billion over the next decade to modernize its telecommunications system.

—*Autos and auto parts:* access to the Mexican auto market is severely restricted by its Auto Decree. This will be phased out under the NAFTA, and tariff reductions begun immediately. With NAFTA, Mexican tariffs will immediately be removed on light trucks and cut in half on passenger cars. Within 5 years, duties on three-quarters of U.S. parts exports to Mexico will be eliminated.The benefits of removing non-tariff barriers will be substantial for the auto industry. A maze of Mexican restrictions prevent the export of autos from the U.S. For instance, today there is a "trade balancing requirement" that permits a company to export an automobile into Mexico, only if it exports the dollar equivalent of two out of Mexico. NAFTA changes that trade balancing requirement immediately, making the ratio .8 to 1 instead of 2 to 1. This is further reduced in stages and completely eliminated in 2004. Local content requirements will be eliminated as well.

Today, the Big Three auto companies export only 1000 cars annually into Mexico. The Big Three believe they will be able to export 60,000 automobiles to Mexico in the first year that NAFTA takes effect.

—*Wood and paper products:* for the last five years, over 60 percent of the growth in the U.S. pulp and paper industry was due to expanded exports. The U.S. is well-endowed with the resources that have made it the largest and most modern producer in the world; Mexico, on the other hand, lacks the resources to support a large domestic industry. Wages in this sector are among the highest in the U.S.

—*Financial services:* U.S. banks and securities firms will be permitted to establish wholly-owned subsidiaries and engage in the same operations as Mexican firms.

—*Insurance:* U.S. firms will obtain the right to establish or acquire firms in the $3.5 billion dollars Mexican insurance market.

—*Agricultural products:* overall, agricultural exports are expected to be $2.0 to $2.5 billion higher per year due to the NAFTA. Wheat and soybean exports will grow by 20 percent, corn by 60 percent. Pork and hog exports will double, beef more than triple above 1991 levels. Other sectors benefitting include processed foods; Mexican imports grew 27 percent in 1992, with substantial growth in processed meats, poultry, beverages and oils. Mexico has the world's second highest percapita consumption of soft drinks.

NAFTA will also create winners in some surprising areas:

—*Steel:* The United States has a growing steel trade surplus with Mexico; with the 1992 surplus of $655 million four times the 1989 level. During the same period, steel mill exports have tripled to 1.3 million tons.

—*Dairy:* Mexico is the world's largest importer of milk powder, U.S. exports are expected to increase by 50 percent, with a 15 percent increase for other dairy exports.

—*Textiles and Apparel:* United States exports to Mexico of textiles and apparel have increased 25 percent each year since 1986, and by 63 percent from 1990 to 1992. Exports now total $1.5 billion. While some exports are assembled for re-shipment to the United States, a larger amount are consumed in Mexico; in 1992 we had a surplus in textiles and apparel trade of $81 million.

Change and new competition will be challenging for some. For the most sensitive sectors, NAFTA provides an extended transition period to allow manufacturers and workers sufficient time to meet new competitive challenges. Products with the longest phase-out periods include household glassware, ceramic tile, most rubber footwear, canned tuna and brooms made from broomcorn.

THE SUPPLEMENTAL AGREEMENTS ON LABOR AND THE ENVIRONMENT

President Clinton endorsed NAFTA last October during the campaign in a speech at North Carolina State University, but he also set out a series of principles which he wanted to see incorporated into supplemental agreements and related initiatives.

He made a promise to the American people which he has today kept: that he would make sure economic growth with Mexico did not come at the expense of the environment or workers rights, and that we would be protected from the possibility of import surges.

This morning, President Clinton, Prime Minister Campbell, and President Salinas signed historic agreements on environmental and labor cooperation. In addition, Mexican Trade Secretary Jaime Serra, Canadian Minister of International Trade Tom Hockin and I have concluded the negotiation of an understanding on import surges.

These Agreements are ground-breaking. The fundamental objectives of the labor and environment agreements are to work cooperatively to improve conditions for labor and the environment throughout North America and to improve national enforcement of national laws relating to labor and the environment. They commit all three nations to fair, open and equitable administrative and judicial processes for the enforcement of environmental and labor laws.

Each establishes a Commission, headed by a cabinet-level representative of each government, which will make sure that the concerns of labor and of the environment have no less attention than that accorded in NAFTA to trade issues.

The Commissions will provide the first trinational forum for addressing environmental and labor problems facing this continent. For example, the environmental commissions can look at the spectrum of environmental issues from migratory and endangered species to transboundary pollution, to advising the NAFTA Commission on disputes on health restrictions. The labor commission will work on matters from worker safety, to worker rights, to improved protection against child labor abuses and improving competitiveness and productivity.

The Cabinet officials will carry out their new responsibilities with the support of a secretariat, and the Commissions will be able to draw on private expertise as well. The environmental secretariat will be centrally located; the labor secretariat will consist of national sections in each country.

To encourage improved enforcement, each of the agreements provides a means by which there can be an independent, objective evaluation and report on the effectiveness of national enforcement of national laws in the environmental and labor areas: by the secretariat (in the case of the environmental agreement) and by an Evaluation Committees of Experts (in the labor agreement).

The agreements also provide for dispute settlement in the event of a persistent pattern of failure to effectively enforce national laws. Where consultations fail to resolve such disputes, a neutral panel of independent experts would be established by a two-thirds vote of the parties. Ultimately, if a panel found that there was such a persistent pattern, and if a party failed to remedy the matter, then there could be fines and trade sanctions. Canada has agreed, in lieu of trade sanctions, to make assessments and other panel-ordered remedies fully enforceable by the Commission in Canadian courts.

The Import Surge Agreement will complement the NAFTA by improving the effectiveness of safeguard provisions that allow action against imports that might cause or threaten serious injury to a domestic industry including the workers of that industry.

These supplemental agreements strengthen NAFTA, and represent an unprecedented commitment to cooperate on these issues in connection with a trade agreement.

BORDER CLEANUP EFFORTS

When the President announced his conditional support for the NAFTA in Raleigh last October, he also raised the problem of pollution along our southern border and made a commitment to address the issue. The NAFTA did not cause these problems, but it does provide an occasion to address them.

Although negotiators have not yet begun work on the language of a text, we have reached a basic agreement with Mexico on a new institutional structure to promote effective coordination of border infrastructure projects. A hallmark of the institution will be a transparent process which incorporates the views of local residents and non-government organizations. Initially, the institution will focus on projects addressing the serious waste water treatment and water pollution problems along the border. The institution will provide assistance on both the technical and financial aspects of the projects.

The institution will work to mobilize multiple sources of financing, depending on the nature of the individual project, although it will not itself offer bonds initially. To the extent possible it will turn first to the private sector, and then as necessary to direct government support (loans, grants or guarantees at the federal, state and local level), and a border environ mental financing facility.

The Administration's proposal for improving the border environment would mobilize around $8 billion over the next decade from the following sources:

- $2 billion from resources currently available for the border states (e.g., state and federal grants for the colonias, EPA state revolving funds, and tax exempt bond issues;
- $4 billion generated by a new joint financing mechanism that, with equal contributions from the U.S. and Mexico, will be able to leverage participation from the private sector to finance pressing water quality projects that directly benefit the United States. and;
- $2 billion in proposed financing for Mexico from the World Bank and the Inter-American Development Bank that would complement the Administration's new approach.

The new joint financing mechanism will be under the auspices of the Border Environment Administration, a new institution that will be structured to improve the participation of the local communities along the border. Of the $4 billion, 50 percent will be financed through grants from both the U.S. and Mexico and 50 percent through debt. User fees will be used to finance the operations and maintenance costs as well as, where possible, debt service. A new facility, the Border Environment Financing Facility will be the principal source of debt financing. It will be capitalized to support $2 billion in lending or guarantees to the Government of Mexico or the private sector. The U.S. share of this capitalization is expected to be $225 million over 4 years. EPA will be responsible for the grant financing for the U.S. contribution to the projects, up to 50 percent of the grant or $700 million over the next decade. This amount will come from existing resources allocated to the border region. (EPA may also seek authority to provide partial guarantees to projects. if needed.)

WORKER ADJUSTMENT AND RETRAINING

Although virtually every study shows NAFTA will produce a net gain in employment in the United States, there will be some workers who lose their jobs as a result of NAFTA. The Administration is fully committed to a new comprehensive, worker adjustment program that will seek to ensure that no job loser will face unaided the challenge of adapting to economic change, whatever its cause.

The program will make available and provide funding for a wide range of effective re-employment services to all dislocated workers, whether the cause of dislocation is defense downsizing, technology, trade, or any other source of economic turbulence. The re-employment services to be offered include job search assistance, quality training, and income support. The Administration will soon introduce legislation to authorize this new comprehensive program and will seek Congressional approval this year.

FUNDING REQUIREMENTS FOR NAFTA

The Administration recognizes that implementing NAFTA will have costs for the federal government. The reduced tariff revenue, as required under the Budget Enforcement Act, must be offset. Under the Administration's proposal to create a Border Environmental Administration (BEA), one of its financing mechanisms (the Border Environmental Financing Facility) will also require contributions from the United States, although it will rely primarily on private sector funding. Funding will also be required to assure benefits to workers who lose their jobs as a result of NAFTA. The labor and environment commissions will require modest funding for staffing and operations.

The Administration believes that the implementation of NAFTA will expand the U.S. economy (i.e., increase income) over time, bringing in additional revenues through existing taxes. Using current economic studies of NAFTA's effect on the U.S. economy, additional federal revenues in the near term could average $6 billion. Under the Budget Enforcement Act, however, only the direct effects of legislation (i.e., the loss of revenues through reduction in tariffs) on the federal budget are considered. The reduction in revenues will be, on average $500 million a year. As part of the cooperative process of developing the legislation to implement NAFTA, the Administration will consult with the Congress over the next few weeks to develop appropriate measures for ensuring that this minimal loss of revenue will not increase the U.S. budget deficit.

RESPONDING TO THE OPPOSITION

NAFTA was negotiated by a Republican President and endorsed, and strengthened, by his Democratic successor. More than 40 of the nation's governors—Republican and Democratic support NAFTA, and they are the government officials with the most direct responsibility for economic development. Virtually everyone involved in business, large and small, across the board, supports NAFTA. Yet it is no secret that NAFTA is bitterly controversial; that the opponents are well-organized and strongly committed; and that their arguments have been resonating with people across the country.

NAFTA comes along at a time of great economic insecurity in this country. Bill Clinton became President because he had a plan to address weaknesses in our economy, reflecting 20 years in which we followed misguided economic policies and neglected the foundation of our economic strength. Jobs have been lost; our manufacturing base did go through a period of serious erosion the fact that many companies did move offshore lends a touch of vivid reality to the frightening arguments of the opponents. But many of the opponents have been playing fast and loose with the facts, dealing with a complex issue through a combination of inaccuracies, misleading statements, and outright falsehoods. It is time to puncture the myths that opponents of NAFTA are trafficking in. I have already tried to dispel some misinformation today, but I wanted to cover a few other areas.

1. U.S. workers can compete successfully with workers from low wage countries, and they do

The premise of NAFTA's opponents is that U.S. workers cannot compete with low wage countries like Mexico. In fact, Mexican wages are not as low as critics indicate and have risen substantially since 1989. Wages for manufacturing jobs in Mexico have more than doubled in dollar terms since 1987. Furthermore, the numbers used by critics don't always indicate the level of benefits Mexican workers received beyond wages.

But more importantly, wages are only one factor in competing. We compete based on the productivity and the skills of our workers. the excellence of our products and services, and the strength of our transportation and communications system. That is the formula for success that Germany and Japan have followed, and that is the natural path for our country. To illustrate just how those factors come together to determine competitive success: despite the wage differential, it actually costs less to sell in the United States an automobile built in Michigan than an automobile built in Mexico.

It was certainly hard for U.S. workers to compete when Mexico's markets were largely closed to our products, as they were prior to 1986. But since Mexico began opening its markets, the U.S. trade surplus with Mexico, the dramatic increase in exports, and the 400,000 jobs created as a result of exports to Mexico, demonstrate just how well we can compete.

2. The U.S. derives great benefits from breaking down the barriers to the Mexican market

The opponents also argue that we have little to gain from access to the Mexican market, since Mexico is a poor country. Nothing could be further from the truth. Mexico is one of the fastest growing economies in the world. It has already become our third largest export market. Mexicans are great purchasers of U.S. products; 70% of all Mexican imports come from the United States. Each Mexican on the average purchased more than $450 worth of U.S. made products. By contrast, the average Japanese spent $385 on U.S. products, despite the fact that Japanese incomes average five times as much as average Mexican incomes. As Mexico becomes a wealthier nation, under NAFTA, their imports from us will only rise. Mexico is projected, for instance, to be the fastest growing major market for automobiles, at just the time when the U.S. auto industry has dramatically cut costs and lifted quality.

Moreover, we should understand the likely nature of Mexico's growth in the coming years. Driven by the determination to move from the third world to the first world in a decade, Mexico plans to spend billions of dollars to build the infrastructure of a modern state. It will be investing inroads and highways, ports, major construction, power generating equipment, telecommunications, environmental protection technology, and countless other projects.

There is nothing theoretical about these possibilities. In 1992, Mexico spent $2.3 billion on telecommunications equipment alone, nearly 50% of which went to U.S. products. Mexico plans to spend $13 billion by the decade's end on telecommunications alone.

Today, thanks to the good relations of the past seven years, and the cooperative work on NAFTA, Mexico looks first to the United States as a likely partner in building a modern infrastructure. If we pass NAFTA, and build on the positive trading relationship, we will be ideally positioned to increase exports to Mexico—in all areas—as Mexico modernizes and becomes a wealthier nation. If we reject it, we can be sure that Mexico can find other countries as partners in trade and investment, such as the EC and Japan. It is worth remembering that until recently, Germany and France were Mexico's preferred providers of telecommunications equipment.

3. NAFTA safeguards the right of the U.S. Government and our states to maintain and enforce strong environmental, health and safety standards, and NAFTA and the Supplemental Agreements contain provisions to encourage improved standards and enforcement throughout North America

Next to arguments about possible job losses, no issue has been more emotional in the debate than the unfounded charge by opponents that NAFTA undermines the ability of the U.S. government, and the states, to establish and enforce their environmental, health or safety laws and maintain high standards. Opponents repeatedly raise the specter of Mexican fruits and vegetables covered with DDT or other prohibited pesticide residues, and wrongly suggest that we will not be able to stop their implementation.

The combination of disinformation and playing on people's fears does NAFTA opponents no credit. NAFTA does not require the federal government to lower its environmental, health and safety standards. Indeed, NAFTA makes explicit that each government may establish the levels of protection for human, animal or plant life or health that the government considers to be appropriate and that any work under the NAFTA to make standards compatible among the three countries is to be done "without reducing the level of safety or of protection of human, animal or plant life or health, the environment or consumers." Moreover, under the NAFTA, state and local laws are free to differ from federal laws, and can be more stringent than those laws.

Another favorite scare tactic of NAFTA opponents is to claim that NAFTA will require us (or our states) to adopt international standards. In fact, the NAFTA explicitly provides, in Article 713, that a party can maintain measures more stringent than international standards.

While granting the federal government and the states broad discretion to set their own environmental, health and safety standards, NAFTA does require governments to meet certain elementary requirements when applying laws and regulations to achieve the government's chosen levels of protection in order to safeguard against blatant trade protectionism in the guise of a health regulation. For example, NAFTA requires that the sanitary or phytosanitary measure used have a scientific basis and be based on a risk assessment appropriate to the circumstances. This is a reasonable requirement. (The term "sanitary or phytosanitary measure" is the technical term for laws and regulations to protect human, animal or plant life or health from such risks as plant or animal pests or diseases or from contaminants in food.)

Our trading partners have repeatedly sought to exclude perfectly safe U.S. products from their markets by citing false "health" pretexts. The NAFTA will help ensure that they cannot unfairly exclude U.S. exports. At the same time, the NAFTA obligations do not threaten U.S. sanitary and phytosanitary measures, since our regulatory system and that of our states already meet the NAFTA requirements.

Consequently, and contrary to the claims of its opponents, NAFTA poses no threat to such U.S. laws as the Delaney Clause. (Under the Delaney Clause, Congress has decided that zero tolerance is the acceptable level of risk from carcinogenic residues.) That is a judgment we are free to make under the NAFTA, which expressly allows each country to choose the level of risk it will accept in sanitary and phytosanitary measures.

Far from weakening environmental, health and safety standards, the NAFTA and the supplemental agreements affirmatively encourage our three countries to improve and enhance protection of health, safety and the environment. The supplemental agreement requires the signatories to "ensure that [their] laws and regulations provide for high levels of environmental protection" and to "strive to improve them," and creates a framework for working cooperatively to harmonize our standards upwards. It also contain commitments for effective domestic enforcement of environmental and labor health and safety laws, as well as a dispute settlement system, backed ultimately by the possibility of trade sanctions, to expose and remedy problems of weak enforcement of such laws.

In short, it is clear that we are far better off in the effort to improve protection of the environment, health and safety with the NAFTA.

4. Rejecting NAFTA will not lead to a "better deal"

Some NAFTA opponents say that we should reject NAFTA and renegotiate a better deal. We intend to show that NAFTA is strongly in the national interest. It is a good trade agreement, and through the supplemental agreements, it breaks new ground in providing assurances that increased trade with Mexico will be accompanied by enhanced environmental protection and improved worker standards and rising wages. Let's be under no illusions. If we reject NAFTA—an agreement negotiated by a Republican President, and endorsed by a Democratic President—there will be no further negotiations any time soon.

In the past seven years, the U.S.-Mexico relationship has moved on a path of increasing friendship, cooperation and trust. This has been an historic break from a century most often characterized by mistrust and antagonism. Mexican Presidents de la Madrid and Salinas deserve praise for their willingness to take extraordinary steps to make the change in attitudes, as well as policies, needed to lift their nation. Presidents Reagan and Bush deserve great credit for the enlightened U.S. responses to Mexico. If Congress rejects NAFTA, the U.S.-Mexico relationship will suffer a profound setback, with enormous repercussions throughout the hemisphere.

At bottom, the critics often seem to argue: if this deal is good for the United States, why does Mexico want it so much? The honest answer has two parts Because Mexico has an economy only one-twentieth the size of ours, the passage—or rejection—of NAFTA will have more impact on Mexico than it does on us. But more importantly, this is not a zero sum game. NAFTA can benefit both the United States and Mexico, and Canada as well.

I have confidence that once the issue is fully debated. Congress will see that NAFTA is a positive step for the United States. and an historic step for North America.

CONCLUSION

All Americans agree that we cannot respond to the challenge of a changing world by drifting, content to accept the result of other nations' trade and economic strategies. We need our own strategy, which builds on our strengths, faces our weaknesses, and responds to the challenges and realities around us.

We would ask the opponents of NAFTA: does walking away from NAFTA seem like good trade and economic strategy? Can you envision Japan or the EC—if they were in our position—rejecting a deal like this? Would either of them kick sand in the face of their third biggest, and fastest growing, trading partner? Would they opt for the status quo, the unbalanced relationship, where Mexico keeps the tariff and non-tariff barriers it chooses to keep?

Would they ever be willing, in one unthinking lurch, to throw away the friendship and progress that have characterized the past seven years, dramatically reversing the historic pattern of mistrust and antagonism? Would they conclude, as the NAFTA opponents apparently have, that it would be easier, somehow, to cooperate with Mexico on the environment, controlling drug traffic, or illegal immigration, if NAFTA were defeated?

This Administration did not negotiate the NAFTA. Moreover, Bill Clinton as a presidential candidate was sharply critical of the economic and trade policy of his predecessors. When confronted with the need to make a decision on NAFTA, he approached it very skeptically. There were powerful political reasons for opposing it.

But when he studied it, he found that NAFTA—particularly if strengthened by supplemental agreements—would be strongly in the economic interest of the United States. It was not a favor that we were doing for Mexico. It would benefit both countries, and Canada as well; It would not solve all our nation's economic problems, but it would be an important piece of the economic strategy that we were putting in place to build the world's most productive and competitive economy.

The Administration has the responsibility of convincing Congress and the country that NAFTA is in the national economic interest, and we intend to do so. I am confident that by the time Congress votes on NAFTA later this year, the country will recognize that NAFTA is a vital part of the solution to the economic challenges that face us.

RESPONSES OF AMBASSADOR KANTOR TO QUESTIONS SUBMITTED BY SENATOR ROTH

Question No. 1. The supporters of NAFTA have placed a lot of emphasis on the growth of state exports to Mexico, all of which focuses on merchandise exports of manufactured and agricultural products. I have received numerous data on the specific types of products that are exported from Delaware as demonstration of my state's strong growth in exports to Mexico, and the assumption is that these exports are made by workers in the state of Delaware. This is very helpful information, but I seriously question its accuracy. For example, my office was told that Saudi Arabia was Delaware's second largest export market last year and that the exports consisted primarily of autos. However, it is my understanding that the cars exported to Saudi Arabia were mainly cars not produced in the auto plants in Delaware. The cars may have been exported out of our port which is good for the port's business, but it doesn't help Delaware auto workers. This makes me wonder how accurate the rest of my state's export statistics are, particularly with respect to Mexico. What type of assurances can you provide me on the accuracy of these state export statistics? And what about service export statistics, are they available on a reliable basis?

Answer. The Department of Commerce includes a statistical note with its full report noting the limitations of the data. Briefly, the information is collected from shippers and tends to overstate exports from ports and understate exports from the actual site of manufacture or growth.

In the case of the statistics for Delaware's exports to Mexico, two categories, Chemical Products and Rubber and Plastic Products, account for nearly 90% of 1992 exports and 88% of 1987 exports. Given that Delaware is a manufacturing center for such goods, the statistics should give a fairly accurate summary of the growth in exports to Mexico. They tell, of course, a very positive story: chemical exports grew by 480% and rubber and plastic goods by 389% percent.

Question No. 2. The U.S. auto companies strongly favor NAFTA. They have said in various fora that they have no plans to shift their U.S. plants to new assembly facilities in Mexico and that their number one NAFTA goal is to increase U.S. exports to Mexico. It's been said that U.S. exports of vehicles from the U.S. to Mexico will grow from 1,000 to 60,000 during the first year of NAFTA. Has the industry made a formal commitment to you that they will stand by every one of these statements—that they will not relocate facilities to Mexico, at least during the ten-year transition to free trade?

Answer. USTR has met with the heads of Chrysler, Ford and GM several times to discuss the NAFTA. They have repeatedly stated that the implementation of the NAFTA will provide more jobs for U.S. auto workers. In addition, they have stated is it extremely unlikely that any plants would be relocated to Mexico because of the NAFTA. Currently, there is significant excess production capacity in the United

States. The cost of shutting down these plants and providing severance benefits to current employees would make such moves prohibitively expensive.

Given the dynamic situation facing the auto industry today, it would be impossible to make a commitment that no U.S. production would ever shift to Mexico, just as they cannot promise the Government of Mexico that no current production will move to the United States. Our auto companies have made absolutely clear, however, their overwhelming expectation that the elimination of the very substantial trade barriers Mexico now imposes on autos, trucks and auto parts by the NAFTA will provide more jobs, increase exports and improve the competitiveness and efficiency of the U.S. auto industry beyond what would occur without approval of the NAFTA.

Question No. 3. When I am back home and meet with the auto workers in my state, I hear their strong apposition to NAFTA. The workforce at one plant has shown me information in the recent past which indicated that management reduced production while a plant in Mexico which builds a similar car had its production increased. Fortunately, a new model is now being produced at that plant. The other plant is owned by GM and is slated to be closed in 1995, which will have a very major impact on my small state. The workforce at that plant has told me more than once that they believe that NAFTA, or the prospect of NAFTA, is a primary reason why the plant is closing. How would you convince these workers that NAFTA is in their interest?

Answer. GM announced its restructuring plans on December 18, 1991, noting it would shut down 6 assembly plants and additional component and power train facilities over the next 4 years. This occurred well before NAFTA negotiations were concluded, including a number of key issues regarding the auto and investment provisions. GM has stated NAFTA was not a factor in its decision to restructure, nor to close the Wilmington assembly plant in particular.

As you know, assemblers currently producing in Mexico are required to balance the value of their U.S.-made part imports with exports. This has meant that from time to time in the past, assemblers have reduced domestic U.S. production of models they are producing in Mexico, in order to supply U.S. inventory with exports from Mexico, and balance their parts imports. The NAFTA eliminates Mexico's trade balancing requirement and so removes distortions from assemblers production operations, to the benefit of U.S. workers.

Question No. 4. During the August recess, I had the opportunity to meet with a large group of constituents and the number one issue they wanted to talk about was NAFTA. They raised several questions, all of which were raised in the context of why they don't believe NAFTA is a good idea. One of their questions addressed the specific NAFTA provision which would allow the temporary entry of over 60 categories of professional workers from Mexico. It is my understanding that although we have an existing worldwide limit of 65,000 on the temporary entry of such workers, entry which I understand can be renewed on an annual basis, the limit for Mexican professionals would be lifted completely after the tenth year of the agreement. My question is, how do you justify such a provision to working professionals in the state of Delaware or other states who work for large companies that are now experiencing major downsizing, especially in middle management positions, and who may be in need of temporary jobs themselves?

Answer. The intent of all NAFTA countries is to make temporary entry commitments in a manner that protects the domestic labor force and permanent employment of persons in these countries. Temporary entry commitments in NAFTA are designed to admit those persons whose activities are related to trade and investment. Our business persons may be admitted into Canada and Mexico on these same terms. This promotes job creation.

The NAFTA temporary entry commitments will not result in significant displacement of U.S. workers. NAFTA is based on a system that has been in force with Canada for four years under the U.S.-Canada free trade agreement. Admission of Professionals from Mexico under NAFTA will be made on the basis of employer attestations as to the conditions of their employment (e.g., prevailing wages, conditions of work, etc.) and is subject to a numerical limitation (5,500 annually). The Administration published on October 6 regulations that will strengthen employer attestation requirements pertaining to these admissions by requiring additional substantiating information. The temporary entry commitments under NAFTA are subject to consultations by a working group that is specifically established to oversee the operation of the agreement. If problems arise, they will be dealt with.

The annual limit for Mexican professional service providers is 5,500 and remains in force as long as we have similar arrangements with another country or 10 years, which ever is shorter. We believe that the transition period provided in the NAFTA allows time for the Mexican economy to grow so to provide jobs in *Mexico* for these service providers. Furthermore, the transition period also gives the U.S. economy time to recover from its current slow economic performance.

Question No. 5. I would have liked to have seen Mexico's auto tariffs phased out more rapidly than under the current text. While they will be reduced in half to 10% on day one of the agreement they are still very high. What are the chances for accelerating the elimination of these tariffs at the first possible opportunity under the acceleration clause of the agreement? I would like to see some focus on this in NAFTA's implementing bill. Would you support such a provision?

Answer. We remain committed to eliminating Mexican tariff barriers to U.S. goods as rapidly as possible and intend to make active use of the tariff acceleration provision of the NAFTA to speed up duty reductions between Mexico and the United States. A similar procedure under the U.S.-Canada free trade agreement has been very successful in accelerating reductions of Canadian tariffs on U.S. goods. We have proposed that NAFTA implementing legislation contain authority for such accelerated tariff cuts.

Question No. 6. Aside from autos, which U.S. industries are currently forced to manufacture in Mexico in order to sell there by virtue of restrictive trade related investment laws?

Answer. Autos, trucks and auto parts are the only goods that must currently meet trade balancing requirements in Mexico. Only manufacturers of autos in Mexico may import cars, for example, and must export $1.75 for each dollar imported for the 1994 model year. Mexico only recently eliminated similar "performance requirements" for computers and pharmaceuticals. Mexico's high tariffs, quotas licensing requirements and other trade restrictions prevent U.S. firms in a wide range of manufacturing and service industries from exporting to the Mexican market. The NAFTA will eliminate these.

Question No. 7. What specific changes to Buy American laws are necessary to implement the government procurement provisions of the NAFTA?

Answer. Very few changes are necessary to implement Chapter Ten of the NAFTA. The administration proposes to amend the Trade Agreements Act of 1979 (19 U.S.C. 2511), which currently gives the President the authority to waive the application of the Buy America Act (41 U.S.C. 10b) in order to implement U.S. obligations under the GATT Agreement on Government Procurement. The amendment would give the President the authority to waive the discriminatory pricing requirements of the Buy America Act applied to:

> (1) purchases of goods over $25,000 by federal agencies in the United States from Canadian suppliers. Canadian federal agencies are likewise obligated to make such opportunities available to U.S. suppliers.
>
> (2) for other procurements by federal government agencies in the three countries, purchases of goods and services over $50,000 and purchases of construction services over $6.5 million; and
>
> (3) for federal government-owned enterprises, purchases of goods and services over $250,000 and purchases of construction services over $8 million.

The administration also proposes amending the Rural Electrification Act of 1938 (7 U.S.C. 93 note) to waive the application of buy national requirements imposed as conditions of funding by the Rural Electrification Administration.

Question No. 8. Under NAFTA, the U.S. will gain access to much of Mexico's government procurement market and Mexico will have access to a good portion of our market. What does this mean in terms of potential bidding opportunities in each other's government procurement market?

Answer. In terms of potential bidding opportunities, Mexican suppliers will gain access to U.S. Federal procurements that have already been opened to foreign suppliers from a number of countries for some time. Most of the value of covered goods contracts are already subject to the GATT Government Procurement Code, which has a threshold of $176,000. In addition, Israeli and Canadian suppliers have had access to goods contracts between $25,000 and $176,000 through existing free trade agreements. With respect to these procurements, Mexico is simply added to the list of designated countries.

Mexico, on the other hand, must open its procurement market for the first time to foreign suppliers. This is a tremendous step forward. Mexican entities will have to publicize covered procurements, establish minimum bid deadlines, and provide rights to bid challenge forums, among other things. This market opening will be particularly valuable with respect to Mexican parastatals operating in sectors (e.g., energy) that are privately-owned in the United States. The total Mexican government procurement market, according to 1990 Government of Mexico estimates, is $18.8 billion, of which PEMEX (the state oil company) accounts for $4.8 billion, and CFE (the state electric utility) accounts for $3.5 billion. Under that NAFTA'S government procurement provisions, about $9 billion worth of Mexican procurement will be open to bidding by U.S. contractors.

Question No. 9. The Administration has stated that U.S. jobs related to exports to Mexico pay 12% more than the average U.S. wage, while U.S. jobs tied to overall U.S. exports pay 17% more. What accounts for the difference?

Answer. A strong consensus of the economic studies that have looked at the labor effects of NAFTA have found it will result in increased jobs or increased real wages—or both. Our experience confirms the findings of these studies. Since Mexico began to open up its economy and prepare for NAFTA, the number of American workers producing merchandise exports to Mexico has risen from 274,000 in 1986 to an estimated 700,000 in 1992. With NAFTA, we anticipate 200,000 more export-related jobs by 1995. Wages of U.S. workers in jobs related to exports to Mexico are 12% higher than the national average.

By way of comparison, consider the following.

- For *all industries,* the average hourly wage per hour for all U.S. private sector, non-agricultural employment, is $10.02. For employment supported by merchandise exports to Mexico it is $11.20.
- In *manufacturing,* the average hourly wage is $10.83; for manufacturing employment supported by merchandise exports to Mexico it is $11.01.
- *In services,* the average hourly wage is $9.43. For services employment related to merchandise exports to Mexico, it is $11.32.

The differences are primarily accounted for by the structure of our exports and the jobs involved in producing them.

Question No. 10. The poultry industry is very significant in Delaware. Would you please explain the now trade benefits that our poultry production will gain from NAFTA. Just how much free trade will there be in North America for poultry and what negative impact might there be on U.S. poultry producers?

Answer. As you may know, the Secretaries of Agriculture for the states of Delaware, Maryland and Virginia have all announced their support for the NAFTA. An August 27, 1993 news release by Maryland Governor Schaefer on behalf of the Delmarva agriculture secretaries, concludes that ". . . By the end of the transition period for NAFTA's implementation, revenues for coarse grain are likely to increase by $400 to $500 million. **Poultry products are likely to fare even better, with some sources estimating a 150 percent jump in sales** (emphasis added). The states of Delaware, Maryland, and Virginia are strong producers in all these areas. NAFTA will bring significant benefits to their agricultural sectors and to their entire economies. The potential for an expanded Mexican market is good news for the farmers of the region."

John F. Tarburton, Secretary of Agriculture in Delaware, said in the same release that "Our three states have substantial apple crops and often limited markets. It is my understanding that Washington state sold seven million boxes of apples in Mexico last year. What an exciting new market this is going to be over the next decade. NAFTA will offer some exciting new opportunities for all of agriculture, Delmarva included."

NAFTA will eliminate tariff and non-tariff barriers to trade in poultry and poultry products between Mexico and the United States. Canada elected to maintain its import quotas on poultry and certain other agricultural products covered by Canadian supply management programs, so Mexico will continue to require licenses for any imports of Canadian poultry (as well as dairy and egg products). (The maintenance of those measures will ensure very little trade in poultry, dairy and egg products between Canada and Mexico.)

The United States supplies almost all of Mexico's poultry imports, which represented about 9 percent of its total poultry consumption in 1991. Mexico buys around 100,000 metric tons, or about 16 percent of U.S. poultry exports. Under the NAFTA, the removal of tariffs and licensing requirements along with expected growth in Mexican incomes is expected to expand demand for poultry products, especially for leg quarters and mechanically de-boned meat. As Mexican demand for poultry and poultry products grows under the NAFTA, expected gains for U.S. poultry producers may be moderated as the availability of lower-priced U.S. feed grains helps Mexican poultry growers become more competitive in their home market.

Mexico currently cannot export poultry to the United States because of exotic Newcastle disease. In that connection, there will be no change in U.S. sanitary/phytosanitary restrictions under the NAFTA.

Question No. 11. What is your estimation of the overall costs of the total NAFTA package and can you give us a breakdown of these costs for each of the component parts of the package, including worker adjustment?

Answer.—Offsets for Lower Tariff Revenue. The Budget Enforcement Act of 1990 requires that offsets must be provided for the lower tariff revenue resulting from the implementation of NAFTA over a five-year time horizon (FY 1994–98). The reduction in revenues will be relatively small. During the first five years of NAFTA's implementation, the revenue loss would average $500 million a year, about 0.4 percent of total revenue available for funding federal government operations. As part of the cooperative process of framing the legislation to implement NAFTA, the Administration is consulting with the Congress to develop appropriate measures for ensuring that the revenue effects of the NAFTA implementing legislation are offset.

Worker Adjustment Assistance.—It is our hope and expectation that the comprehensive reemployment program will be enacted early next year and take effect July 1, 1995. In the interim period, between the effective date of NAFTA on January 1, 1994 to the beginning of the new program, the Administration is committed to ensuring that workers adversely affected by the Agreement be provided early, effective, and comprehensive adjustment assistance. In order to meet our commitment, the Administration is considering proposals to provide services through a supplemental appropriation to the current adjustment assistance program under Title III of the Job Training Partnership Act, or alternatively, through an amendment to the Trade Adjustment Assistance Program.

Under either approach, the Administration will ensure that such assistance incorporates the same key components. These include: a quick determination of eligibility for assistance; the immediate provision of critical rapid response and basic readjustment services that will begin the adjustment process, including the provision of relevant labor market information, counseling, assessment, and job search assistance; and, for those who need it, skills training accompanied by income support that will enable workers to participate in such training.

This array of services foreshadows the approach to adjustment assistance that will be taken by the comprehensive program. In ensuring that NAFTA-impacted workers have such services available as soon as the Agreement takes effect, this transitional program will provide an important down payment on the systemic reform that will follow.

Border Environment Activities.—The Administration is negotiating with Mexico on a proposal to create a new institution, the Border Environment Administration, to coordinate and oversee the construction of environmental infrastructure projects. The proposed BEA would mobilize funding from a variety of sources: the private sector; federal, state and local sources; and a proposed new U.S.-Mexico Border Environment Finance Facility (BEFF). The U.S. share of the BEFF capitalization is currently estimated to be $225 million, or $56 million annually for four years. User fees will be paid by those benefitting from the new environmental facilities and those causing pollution, in order to attract and repay private sector debt financing. Because some grant financing would still be needed to make the projects financially viable, EPA is expected to provide up to $700 million in grants to these projects over the next 7–10 years.

In addition to these projects, EPA and other agencies would continue funding to improve the environment on the U.S. side of the border. One example of this funding is wastewater grants from EPA and drinking water grants from USDA for the "colonias" (unincorporated, low-income communities along the U.S. border). Funding for these and other environmental activities is currently included in the President's FY 1994 request. The majority of this funding has not been secured yet, because a number of the projects still require Congressional authorization. The BEFF's capitalization would not be required until FY 1995.

Commissions created by the side Agreements.—The labor and environment commissions established in the side agreements will require small amounts of funding for annual operating expenses.

Question No. 12. How many government officials, independent trilateral staff and private sector representatives will be involved in the functioning of the two new trilateral Commissions on the environment and labor?

Answer. At this time it is not possible to give you a precise answer, since some of the questions regarding staffing and resources remain to be decided among the three Parties to these agreements; others depend upon decisions to be made by the U.S. government in cooperation with Congress.

The Secretary of Labor and the Administrator of the Environmental Protection Agency, as members of the respective governing Councils, are not expected to require significant new agency resources for the fulfillment of their official responsibilities.

In these times of budgetary constraints, the Secretariats of the respective commissions must be efficient and no larger than necessary to get the job done. The supplemental agreement on labor specifically sets the initial number of staff positions in the secretariat at fifteen, with any change requiring council approval. Each government has the right to determine how its National Administrative Office (NAO) is staffed, and its powers and functions. We will work with Congress in designing our NAO. The environmental Secretariat has broader duties and will probably be somewhat larger than labor's. The environment agreement also calls for a Joint Public Advisory Committee, with five non-governmental representatives designated by each Party.

Both agreements also recognize each Party's right to establish its own domestic sub-federal governmental and nongovernmental advisory committees. We consider input from the states and the public to be critical to the effective operation of the Commissions. The Department of Labor and the Environmental Protection Agency will determine whether advice from states and the public can best be provided, whether through the creation of new advisory bodies or through existing ones.

Question No. 13. Do the side accords now mean that failure to enforce one's labor and environmental laws is a de facto unfair trade practice?

Answer. No. The current U.S. legislation dealing with unfair trade practices is Section 301 of the Trade Act of 1974, as amended, and the labor and environmental side agreements do not alter the operation of that law. The agreements provide new and effective mechanisms for us to encourage Canada and Mexico to effectively enforce their labor and environmental laws. Determinations regarding effective enforcement of labor laws under the labor side agreement may complement Section 301, which does include a labor component.

Question No. 14. In your view, what will be the impact of these side accords on the ongoing Uruguay Round talks and future bilateral trade agreements?

Answer. Congressional approval of the NAFTA and its accompanying side agreements can significantly improve the U.S.'s ability to persuade our trading partners to address issues of trade and the environment in the Uruguay Round and future GATT and bilateral trade agreement negotiations. The extent to which specific provisions of the side agreements are relevant to future trade agreements will, however, depend upon the particulars of those negotiations and the environmental and labor conditions in the participating countries.

Many of the issues that the NAFTA signatories address in these side agreements are also currently the subject of multilateral discussions of trade and environment policy in the GATT, the Organization for Economic Cooperation and Development, the United Nations Commission on Trade and Development, and the Commission for Sustainable Development, and NAFTA's approval buttresses our efforts to get other countries to focus on resolving such issues in those fora. Some provisions in the side agreements are tailored to the unique geographic and economic relationship we have with our neighbors, Canada and Mexico—e.g., those dealing with transboundary pollution—and any other countries' accession to these agreements would need to be negotiated with that in mind. Regardless, we have already notified Latin American trading partners that environmental policy issues will need to be dealt with in any new trade agreements we may negotiate with them.

RESPONSES OF AMBASSADOR KANTOR TO QUESTIONS SUBMITTED BY SENATOR GRAHAM

Question No. 1. The U.S. has maintained over recent years the largest trade surplus with Central America and the Caribbean Basin and that surplus creates hundreds of thousands of jobs in the U.S. There are many Members on this committee, in Congress, and especially in the Florida delegation, who are concerned that will have a negative impact on Central America and the Caribbean. Senator Graham and others have introduced the Caribbean Basin Free Trade Agreements Act (S. 1155) which would grant parity to the central American and Caribbean countries. Has the Administration made a decision whether to support NAFTA parity?

Answer. Our first priority must be to gain Congressional passage of the NAFTA, which will greatly expand market opportunities for CBI beneficiaries. NAFTA approval will enable the United States to continue the process of hemispheric trade liberalization.

This Administration supports the Caribbean Basin Initiative (CBI), which has benefitted both the United States and countries in the Caribbean Basin. The CBI provides the 24 beneficiaries very open access to our market—excluding textiles/apparel and petroleum (which are not eligible for CBI benefits)—99 percent of the region's products entered the U.S. duty-free in 1992.

As we move towards NAFTA implementation, we must be careful to avoid reversing the gains we have made with the CBI. The President has asked USTR to direct an interagency team to examine the potential impact of the NAFTA on the CBI.

Until the this report is concluded, the Administration does not plan to take a position on NAFTA-parity.

Question No. 2. President Clinton has asked you to provide him with recommendations on how to minimize NAFTA's negative impact an the Central American and Caribbean region. When do you expect to present those recommendations to the President and will he make his decision on those recommendations prior to the Administration completing work on the NAFTA implementing legislation?

Answer. I have asked the interagency group to provide me its report by October 15. After reviewing the report's assessment, we will consult with the Congress, and I will inform the President of my recommendations for his consideration.

Question No. 3. Besides NAFTA parity, what other alternatives are you considering to minimize NAFTA's negative impact on the region?

Answer. The interagency group was asked to examine the impact of NAFTA and to develop appropriate recommendations, which would not necessarily be confined to NAFTA parity. The policy alternatives we are focusing on would seek to address legitimate concerns in the region. I am now considering the report's findings with that in mind.

THE U.S. TRADE REPRESENTATIVE, EXECUTIVE OFFICE OF THE PRESIDENT,
Washington DC, November 16, 1993.

Hon. DANIEL P. MOYNIHAN,
U.S. Senate,
Washington, DC

Dear Mr. Chairman: I recently wrote to you with comments on parts of a September 15th statement by Senator Carl Levin to the Senate Finance Committee on the NAFTA (copy enclosed). I would like to complete these comments with the enclosed material concerning Senator Levin's pamphlet entitled, *"NAFTA MATH: It Doesn't Add Up"* and his views on administration figures on exports to Mexico, related U.S. employment and the impact of NAFTA.

Dr. Paul A. London, Acting Under Secretary of Commerce for Economic Affairs provided written and oral testimony to the Senate Government Affairs Committee on these subjects on November 10, 1993. My staff was closely consulted in the preparation of Dr. London's testimony. I believe his testimony fully and accurately reflects the administration's views on the issues raised by Senator Levin. We firmly stand behind the Administration's data and estimates.

We also have a number of reservations about the methodology used and conclusions reached in *"NAFTA Math: It Doesn't Add Up."* Dr. London has summarized these reservations in his testimony, a copy of which is enclosed with this letter.

I hope this testimony will prove useful to you in assessing the importance of our current exports to Mexico as well as the potential for NAFTA to enhance further U.S. exports, jobs and growth.

Sincerely,

MICHAEL KANTOR.

Enclosure.

TESTIMONY OF DR. PAUL A. LONDON, ACTING UNDER SECRETARY OF COMMERCE FOR ECONOMIC AFFAIRS, BEFORE THE SENATE GOVERNMENTAL AFFAIRS COMMITTEE HEARING RE: NAFTA JOB CLAIMS: TRUTH IN STATISTICS, NOVEMBER 10, 1993

Mr. Chairman and Members of the Committee. My name is Paul A. London. I am the acting Under Secretary of Commerce for Economic Affairs.

It is a pleasure to be here today to discuss the data and methodology the Administration has used to project job growth from the North American Free Trade Agreement (NAFTA), and the question of investment in Mexico.

Let me say at the beginning that the Administration understands the Committee's concern about jobs in the United States. We share it. We would not support this agreement if we did not believe that it was good for American working people. We support it because we believe that the NAFTA will make this country more competitive in the global economy, where our greatest challenges come from mostly high wage countries in Asia and Europe.

We recognize, however, that some Senators believe U.S. exports to Mexico—particularly exports to maquiladoras—cost U.S. jobs. NAFTA, of course, will phase out the maquiladora system, but the concern remains. This was made clear at hearings of the Subcommittee on Oversight of this Committee on April 28, 1993, concerning

U.S. trade data and the ability of the Bureau of the Census to separate out exports and imports to and from maquiladoras in Mexico.

The Committee's letter of Oct. 27 to Secretary Brown raised three central issues, which I would like to address. Since the question of export statistics and maquiladora exports has been a central one for the Committee let me try to deal with it first. Then I will discuss the methodology used to estimate the number of jobs dependent on exports to Mexico. And third, I will discuss the investment issue.

The first issue is the degree to which rising exports to Mexico represent exports of parts to be assembled in that country and reexported to the U.S.

The argument that increasing exports to Mexico may cost jobs is built on a number of assumptions and "hypotheticals." The most important assumption is that exports of U.S. components for assembly and reexport to the U.S. are the source of a large but unspecified share of U.S. exports to Mexico. Another is that if exports of U.S. components to Mexico did not take place, the components would continue to be assembled in the U.S. The U.S. assembly operations in other words (1) would stay open in the United States, and (2) would not move to another third country such as Singapore, the Dominican Republic, China, or Bangladesh.

Our view of U.S. exports to Mexico is different.

First, we do not believe that maquiladora trade relationships are much of & factor in the very large increase in U.S. exports to Mexico in the past several years, and we have some data and calculations that support our view. USITC data for example, shows that U.S. exports to Mexico have risen by about $25.6 billion since 1987, while imports of U.S. components from Mexico have risen only about $4.2 billion.

Second, we believe that the real-world alternative to many assembly operations in Mexico is the movement of such operations—in part or lock, stock and barrel to Southeast Asia or elsewhere. In these cases, the losses to the U.S. in terms of jobs would be much greater because the job-creating connections to the U.S. of these third countries are usually significantly weaker than the Mexican connection. For example, the U.S. content of products made by U.S. companies in Asia is 20 percent, while the U.S. content of products made by U.S. companies in Mexico is 70 percent.

Looking at these issues in order, let me try to deal with the hypothetical case of the U.S. assembly operation moving to Mexico so that an increase in exports means fewer U.S. jobs. The limited data we have on this subject suggests that such cases are not at all typical.

USTR, using data from the ITC that extends a recent GAO analysis through 1992, estimates that about 78 percent (about $30.9 billion) of U.S. exports to Mexico were for consumption in Mexico. Reimports of U.S. components from Mexico totalled 21.9 percent ($8.7 billion) of U.S. exports in 1992, a share that has fallen by one third since 1987.

In other words, as the Mexican economy has grown and opened up, the share of U.S. exports that even theoretically could meet the hypothetical model has dropped sharply.

Other Commerce Department data supports this view. It shows that 70 percent of the sales of majority-owned affiliates of U.S. firms in Mexico were sales in Mexico not exports to the U.S. Most sales of U.S. affiliates, in other words, are to serve the expanding Mexican market not the U.S. market.

These numbers set the outside parameters of the "hypothetical" case. Other facts further limit its relevance. We believe, for example, that many U.S. assembly operations in Mexico are an alternative to (1) shutting down production in the U.S., or (2) moving the assembly operations to another developing country and hurting component makers as well. In these cases, assembly operations in Mexico save U.S. jobs so it is perfectly reasonable to see these exports as job-creating.

U.S. firms that would fit the hypothetical are those where the only two alternatives are (a) the status quo—assembly in the U.S. with nothing changing, or (b) a move to Mexico. We do not believe that many firms have such constrained choices.

It is also important to note that maquiladoras, which might include some firms that fit the hypothetical model, will be phased out under the NAFTA. At the end of the transition period, plants in the maguiladoras will be able to sell their production in Mexico, an option which is very severely limited by current Mexican law. In addition, other Mexican requirements—for example in the auto and auto parts area—that plants export as a condition for selling in Mexico will be phased down.

In summary, component exports for re import into the U.S. represent only a modest and diminishing share of U.S. exports to Mexico. Moreover, they almost certainly work to preserve jobs in this country because the alternative is not likely to be the status quo, but instead closure or movement to other developing countries with a lower propensity to "buy American."

Now let me turn to the second major issue in the letter of October 27. In that letter you asked how the Administration developed the job growth claims relating to NAFTA.

The basic data comes for the Commerce Department publication, "U.S Jobs Supported by Merchandise Exports to Mexico" (Economics and Statistics Administration; Office of the Chief Economist, OMA Research Series 2–92;. May 1992). That document reports that the number of U.S. jobs supported by merchandise exports to Mexico rose from 274,000 in 1986 to 538,000 in 1990.

The methodology used is a calculation of the number of jobs required to produce and transport the goods that are exported. It is not an alternative scenario approach, or a forecast approach.

The estimation of the jobs number uses a methodology in conjunction with the 484 sector input-output model of the U.S. economy developed by the Interindustry Economic Research Fund, commonly referred to as INFORUM, at the Department of Economics at the University of Maryland.

The number of jobs supported by merchandise exports reflects the estimated number of jobs *directly* required to produce the exported goods: the jobs required *upstream* in the production process to produce the raw materials, parts, and capital goods used in the production process; and the number of jobs required downstream to move the goods to the port of exportation. It does not include the multiplier impacts on other industries of these jobs.

The key assumptions in deriving these estimates are:

(1) Jobs upstream and downstream in the production and distribution process, including capital goods requirements, are supported by merchandise exports. (2) Exports are measured by domestic exports, and exclude exports of foreign merchandise; that is, reexports of foreign goods do not significantly contribute, per dollar of export, to U.S. jobs. (3) Technology and productivity change occurs annually. (4) Use of imported inputs lowers the total number of U.S. jobs required to produce exports. (5) The number of jobs supported in each sector differs significantly across producing industries, and thus, between output for export versus output for domestic consumption and for capital investment. (6) Full-time-equivalent jobs, as reported by the Bureau of Economic Analysis, are the most stable uniform basis of measuring jobs for the purpose of this analysis. (7) Only an insignificant share of U.S. government employees are required in the production of U.S. merchandise exports.

The model has several limitations. First, the results of this model are estimates for a given period. The number of jobs per billion dollars of exports is an average for that period. In technical terms, these data are not useable for marginal analysis.

USTR took these numbers and extrapolated the jobs figure forward to 1992 based on (1) the growth in exports to Mexico from 1990 to 1992 and (2) U.S. jobs per billion dollars of exports as reported in the table below.

TABLE 1

Year	Merchandise Exports to Mex. (millions of dollars)	U.S. Jobs Supported by Exports to Mex. (in thousands)	U.S. Jobs per $bn of exports
1986	12,392	274	22,110
1987	14,582	309	21,191
1988	20,628	417	20,215
1989	24,982	498	19,934
1990	28,279	538	19,025
1991	33,276	[1] 610	[1] 18,321
1992	40,597	[1] 716	[1] 17,643

[1] Estimated.

U.S. jobs supported by each billion dollars in exports declines from year to year both because of price inflation and rising productivity in the sectors producing U.S. merchandise exports.[1]

Once the jobs per billion dollars of exports to Mexico were estimated, that figure was multiplied by the total value of merchandise exports to Mexico to provide an estimate of the total number of U.S. jobs supported by exports to Mexico in 1991 and 1992.[2]

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[1] The rate of decline in jobs per billion dollars of exports to Mexico was 3.7 percent per annum between 1983 and 1990, and this rate of decline is assumed to continue out to 1995 in the "jobs attributed to exports" calculation.

The estimate that U.S. jobs related to merchandise exports to Mexico could rise by about 200,000 to as many as 900,000 by 1995 is Similar conclusion of Gary Clyde Hufbauer and Jeffrey J. Schott, in their book *NAFTA: An Assessment* (Institute for International Economics, 1993). Using the same 1990 base data from the Commerce Department on exports to Mexico and related U.S. employment reported above, Hufbauer and Schott argue that U.S. exports, with NAFTA, will continue to grow to such an extent that 854,000 U.S. jobs will be supported by 1995 (pages 14 to 17).

Since NAFTA negotiations were announced, U.S. exports to Mexico have grown very rapidly—an average of roughly 20 percent a year from 1990 to 1992. To reach 900,000 jobs by 1995, U.S. exports to Mexico would need to grow by about 12 percent a year over the next 3 years (reaching an estimated $57 billion in 1995 with jobs per billion dollars declining at a 3.7 percent annual rate to 15,755 in that year).

It is clear from the above methodology, that these are gross not net numbers. The calculation is limited to jobs that will be created by increasing exports to Mexico.

Some see this as a major weakness of the calculations but we do not for several reasons. First, the U.S. has a large trade surplus with Mexico that clearly indicates net job creation, and is likely to persist. In 1992, the U.S. had exports of over $40 billion to Mexico and an overall surplus of $5.4 billion with that country.

Only eight years ago in 1985, when Mexico was in a severe depression and its economy tied up in knots, the U.S. had exports of only about $12 billion to Mexico and a trade deficit of $5.5 bill ion with that country. U.S. workers have gained enormously from Mexican economic growth and the NAFTA positions them to continue to do so.

In fact, the U.S. has a much bigger surplus in manufacturing with Mexico than we have overall with that country. This is because we import about $4.3 billion worth of oil from Mexico. In 1992, the U.S. surplus with Mexico on manufactured goods was $7.5 billion. In 1993, the U.S. surplus on manufactured goods with Mexico based on eight months of data through August, is likely to still be about $5.5 billion, despite slower growth in Mexico, some of it no doubt related to NAFTA jitters.

The estimates of job creation also are conservative for another reason. That is because there is no calculation of the job impacts of increased economic efficiency in North America as a whole as a result of the NAFTA. That increased efficiency will allow the U.S., Mexico and Canada to compete on better terms with Japanese, European, and Southeast Asian countries. These countries, many with high wages, are obviously our most important competitors in the global market place.

Of course, we recognize that as U.S. exports to Mexico have soared and as the U.S. trade balance with Mexico has gone from deficit to surplus in recent years, imports from Mexico have grown. We do not know, however, how much of this growth in imports from Mexico displaces imports from other countries. But since U.S. trade barriers are very low, it is reasonable to assume that many imports from Mexico would come from elsewhere were they not coming from that country.

We also know that when Mexico is growing rapidly, as we would expect it to do if NAFTA passes, it is likely to run a significant trade deficit with the United States. This is Mexico's history. It is the record of most other developing countries.

It is important to note, in this regard, that during the Mexican debt crisis of the early 1980s, when Mexico could not finance substantial imports, U.S. exports to Mexico fell by 49 percent in two years (from $17.8 billion in 1981 to $9.1 billion in 1983). A repeat of such an occurrence if Mexico is again unable to finance an import surplus would certainly not be good for the United States or for American workers.

In summary, while the 200,000 jobs number is a rough estimate, increasing U.S. exports to Mexico are creating additional manufacturing jobs in the U.S. without doubt, and NAFTA by fostering growth and liberalization in Mexico will create more.

The final question in your letter is about a possible shift in investment to Mexico. Much of the argument against the NAFTA is based on concerns that the agreement will spur large outflows of U.S. investment to Mexico. The fear is that this would reduce investment and employment in the U.S., and in the long run lead to the elimination or reversal of the U.S. trade surplus with Mexico. The logic of this argument breaks down when the facts are examined.

U.S. investment in Mexico is a very small fraction of U.S. investment overseas, and an even smaller part of overall U.S. investment. Table 2 shows that cumulative U.S. investment in Mexico was only 2.7 percent of cumulative U.S. overseas investment in 1992. Table 3 shows that U.S. investment in Mexico on an annual basis is only a fraction of 1 percent of total U.S. non-residential investment, which was about $536 billion in 1992.

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[2] These figures relate only to jobs supported by U.S. merchandise exports to Mexico, and do not include jobs related to the exports of services.

Some have said that the NAFTA could lead to a doubling of foreign direct investment in Mexico.[3] Even if this "high-end" projection becomes reality, however, U.S. investment in Mexico will equal less than 1 percent of overall U.S. non-residential investment.

U.S. investment in Mexico, although small in absolute and relative terms, should be seen in relation to what our chief competitors are doing in other areas. Growing Japanese investments in Southeast Asia and EC investments in Southern and Eastern Europe do two basic things. They (1) give our competitors advantages in these growing markets, and (2) enhance their ability to compete with U.S. producers worldwide.

U.S. investment in Mexico by the same token is important as a way to expand a growing market for U.S. exports and improve the global competitiveness of the U.S. To understand this, we need only look at Japan and Europe, our most important competitors worldwide.

Table 4 shows that Japanese annual investment in just Thailand and Hong Kong usually exceeds U.S. investment in Mexico by a significant amount; EC countries also have been increasing their investments in developing areas, especially those associated with the Community.

Our high wage industrial competitors invest so much in these developing countries because they know that this is the way to develop new markets and improve their global competitiveness.

It also is important to note that much of the U.S. investment in Mexico already comes from reinvesting the profits of U.S. subsidiaries in Mexico, not new capital outflows. *From 1989–1992, reinvested earnings were $4.8 billion (68 percent) of the total $7.1 billion net outflow of U.S. investment to Mexico.*[4]

It is incorrect to assume that an increase in U.S. investment in Mexico will decrease investment within the U.S. The expansion of the European Community to include several developing countries has increased investment in both the advanced and the less advanced parts of the Community. The globalization of today's capital markets and NAFTA-related issues that will affect both the demand for and the supply of capital undercut the argument that increased investment in Mexico has to mean reduced investment in the U.S.

Investment funds from around the world, not just from the U.S., supply the necessary capital to support investment levels in the U.S. The existence of the NAFTA will increase the attractiveness of foreign investment in North America. Europeans and Asians as well as Americans will be more likely to invest in the U.S. because facilities funded by these investments will have free access to markets in all three member nations.[5] It is no accident that BMW and Mercedes have just elected to build plants in the U.S. not in Mexico.

Much of the future U.S. investment in Mexico is likely to be investment diverted from alternative investment projects in other countries, not U.S. domestic investment. In part, this will be because investments in Mexico will be more rational and efficient because firms will not have to invest in Mexico to meet Mexican legal requirements that now sometimes force investments as a condition for selling products in that country. If it makes economic sense to supply Mexico from new or existing plants in the U.S. rather than by building a plant in Mexico, NAFTA will make that possible.

The growth in U.S. exports to Mexico as a result of the NAFTA will spur more investment within the U.S. Increased Mexican growth and investment will increase U.S. exports and GDP. Rising sales to Mexico go hand in hand with greater domestic investment in the U.S. because capacity is needed here to supply these exports. As Mexico moves to build-up its industrial capacity, it usually turns to its largest trading partner to obtain the necessary capital equipment.[6]

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[3] The Joint Economic Committee has conducted a review of economic models of the NAFTA. It finds that the Economic Strategy Institute is on the extreme end of the spectrum when it predicts that foreign direct investment in Mexico will double due to the NAFTA.

[4] Bureau of Economic Analysis, U.S. Department of Commerce.

[5] This regional attraction has certainly been the case with the EC, where despite the inclusion of low-wage nations—Spain, Portugal, and Ireland—investment in the high-wage nations has not suffered.

[6] For example, the Deer Park oil refinery in Texas outside Houston, is a U.S.-Mexican joint venture, which will lead to about $1 billion in sales of U.S. steel and equipment. New investments of this sort in Mexico will create similar demands for U.S. products, and stimulate additional investments in the U.S. by those who supply this NAFTA-related demand.

Several economic models surveyed in a CBO report found that the NAFTA's effect on U.S. GDP is more positive when an increase in the Mexican capital stock is incorporated into the analysis. This is because U.S. investment in Mexico leads to larger U.S. exports of capital and consumer goods, which mean economic expansion in the U.S. U.S. investment in other regions does not generate nearly the same amount of U.S. GDP-expanding industrial exports. In addition, an increase in U.S. investment in Mexico will affect the exchange rate in a way that is favorable to U.S. exporters of consumer goods.

Finally and very important, increased investment in Mexico will allow U.S. firms to improve their global competitiveness, which also will lead to increased investment. The NAFTA arrangement will provide economies of scale and scope for integrated U.S. multinationals, which will improve the competitive position of their production facilities within the U.S. This has been the case with Japanese investment in Southeast Asia and EC investment in Eastern Europe.

In summary, we have tried to deal in this testimony with the three issue areas raised in the October 27 letter. Our view is that the hypothetical case of U.S. firms moving to Mexico to assemble U.S. parts for reexport is far from the norm for several reasons which we have outlined. We also believe that trade with Mexico clearly is creating manufacturing jobs in the U.S. and that the rough estimate of 200,000 additional jobs from exports to Mexico is defensible. Finally, we believe investment in Mexico diverts little if any investment from the U.S. and that healthy growth in Mexico actually encourages greater investment here.

Thank you very much for this opportunity to appear before your committee.

TABLE 2

[U.S. dollars in millions]

Year	Cumulative U.S. direct investment in Mexico	Percent of total cumulative U.S. FDI[1]
1985	5,088	2.2
1986	4,623	1.8
1987	4,913	1.6
1988	5,712	1.7
1989	8,264	2.2
1990	10,255	2.4
1991	12,257	2.7
1992	13,330	2.7

[1] FDI stands for foreign direct investment.

Sources: General Accounting Office, "North American Free Trade Agreement: U.S.-Mexican Trade and Investment Data;" Bureau of Economic Analysis, U.S. Department of Commerce

TABLE 3

[U.S. dollars in millions]

Year	Annual net outflow of U.S. investment to Mexico[1]	Percent of annual U.S. domestic investment[2]
1985	136	0.03
1986	(446)	....
1987	310	0.06
1988	670	0.1
1989	1,652	0.3
1990	1,868	0.3
1991	2,305	0.5
1992	1,261	0.2

[1] Approximately 68 percent ($4.8 billion) of the net outflow of U.S. investment to Mexico since 1989 was reinvested earnings of U.S. companies in Mexico, not investment diverted from the U.S.

[2] U.S. domestic investment figures are investment within the U.S. by foreign and domestic sources, excluding residential and housing investment. The ratio is calculated in constant 1987 dollars.

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Economic Report of the President, January 1993.

TABLE 4

[U.S. dollars in millions]

Year	Annual Japanese investment in Southeast Asia	Annual Japanese investment in Hong Kong	Annual Japanese investment in Thailand
1985	845	131	48
1986	1,813	502	124
1987	2,993	1,072	250
1988	4,510	1,662	859
1989	6,849	1,898	1,276
1990	5,234	1,785	1,154
1991	3,890	925	807

Source: DECD, "International Direct Investment Statistics Yearbook 93."

PREPARED STATEMENT OF FRED KRUPP

My name is Fred Krupp. I am executive director of the Environmental Defense Fund, an environmental advocacy organization representing more than a quarter of a million Americans.

Throughout the NAFTA debate, the EDF staff has worked to help produce a trade agreement and other commitments between the countries that will increase the likelihood of solving environmental problems in North America. Furthermore, each day of the week, we are putting our ideas to work along the U.S.-Mexico border, helping people make their environment safer and healthier.

I have been asked by the Committee to explain why six of the country's largest environmental organizations, representing nearly eight million members, have concluded that the environment will be better served by ratifying the NAFTA and its environmental side accord I am very pleased to tackle this important assignment.

There has been much heat and hyperbole in this debate and, no doubt there will be much more before it is finally resolved by Congress. Because the integration of trade and environmental policy is a relatively new and complex issue, knowledgeable people with the best intentions may genuinely disagree. They certainly have differing expectations for the accord, and often have differing evaluations of the results achieved. Furthermore, environmentalists differ on whether or not we can negotiate a better agreement if this NAFTA package is defeated.

I would like to briefly explain to the Committee why the Environmental Defense Fund, the National Audubon Society, the Natural Resources Defense Council, the National Wildlife Federation, the World Wildlife Fund, Conservation International and the eight million of environmentalists these groups represent, deeply hope that the NAFTA and its environmental tide accord will be approved.

Environmental conditions on both tides of the Rio Grande have deteriorated significantly. And neither the U.S., nor Mexico, has taken sufficient action to correct them. Today, we see elevated numbers of children born without brains, diseases we thought were eradicated decades ago are regularly documented by public health officials, air pollution in certain urban areas is intolerable, hazardous wastes are not properly handled, and the habitat for threatened species are destroyed. All these problems have been carefully documented and they abound *without* the NAFTA.

In the United States, we have forged ahead with national, state and local environmental laws, in some cases making great strides, in some cases barely inching along. Because the U.S. is part of an international trade regime, called the General Agreement on Tariffs and Trade (GATT), our environmental and non-environmental laws have sometimes been challenged by our international trading partners who believe specific U.S. laws are discriminatory.

The environmental community is very disturbed that the current and proposed GATT rules give too little weight to environmental protection and specifically discourage state and local laws which are more stringent than federal laws. Certainly, the tuna-dolphin decision, which is so worrisome to environmentalists, is a GATT decision;

The truth is there are real trade-related environmental problems. The truth is these problems have occurred without the NAFTA and without this NAFTA they will get worse!

Without this NAFTA, there will continue to be increased trade and investment between the countries of North America and more industrialization on the U.S.-Mexico border.

Without this NAFTA, our rights to enforce trade obligations contained in the Montreal Protocol, the Convention on International Trade in Endangered Species, and other international environmental agreements will be left to GATT rules and will not be secure.

Without this NAFTA, we have no agreement among the countries to resolve differences in their environmental standards by working jointly to enhance the level of environmental protection.

Without this NAFTA, we have no mechanism to challenge a country that relaxes, or simply ignores, its environmental laws to attract investments.

Finally, without this NAFTA, we simply lose our leverage for action.

So, our coalition of six. environmental organizations has concluded that the environmental problems that concern us today have little or nothing to do with the NAFTA. Moreover, it is only through new environmental provisions found in the NAFTA, its environmental side accord, related funding agreements, and its implementing legislation that we can best ensure that those problems do not continue to get worse.

There are some who believe, despite the gains which could be made with this NAFTA, that we can get a better deal for the environment if we reject the trade agreement and negotiate a new one.

I am not a political forecaster. However, I do know the trade agreement has essentially been renegotiated once, in the form of the environmental side accord. I respect the fact that U.S. government officials took many of the specific recommendations of the environmental community as their negotiating position for the environmental side accord. And while the negotiations did not achieve as much as I would have hoped, they did achieve real results.

In the environmental side accord, called the North American Agreement on Environmental Cooperation, the countries have agreed to specific commitments designed to improve enforcement of environmental laws, to enhance cooperation on environmental problem-solving in North America, and to promote public participation and due process in developing and enforcing their environmental laws and administrative procedures. These are very important commitments.

If the environmental side accord is adopted, a person or non-governmental entity who believes that a country is not enforcing its environmental laws will be able to make those allegations known through the new Commission for Environmental Cooperation. Allegations are subject to thorough and open investigation. If one country believes that another country persistently fails to enforce environmental laws, it can demand consultation. If that consultation is unsuccessful, two countries can institute a dispute resolution process, which can result in preparation of an action plan to correct the pattern of violations, and/or penalties of up to $20 million per year, and, in the case of the United States and Mexico, the imposition of trade sanctions.

The Commissions Council will also advise the NAFTA's Free Trade Commission and technical committees on specific environmental provisions, develop recommendations on the conservation of natural resources, and regularly monitor the environmental consequences of freer trade.

I do not know if the Mexican and Canadian governments are bluffing when they say they've gone as far as they can go with the environmental side accord. I fear that even if they were suddenly to reverse themselves, it would be years before we were back here, given that a new government will be taking over in Mexico and the recent changes in Canada. And, from our experience, that delay would mean years more of inaction on urgent problems.

As this Committee moves forward to draft an implementing bill, a statement of administrative action, and a committee report, we urge you to adopt recommendations that will:

- reaffirm protection of U.S. laws;
- promote the use of bi-national agreements;
- provide necessary funding for U.S.-Mexico border clean-up and the new Commission for Environmental Cooperation; and
- insure openness and opportunities for public participation in solving environmental problems.

A detailed statement supporting each of these recommendations is attached to my testimony.

Because our border environmental problems have been ignored for so long, I believe it is critical to demonstrate quickly and clearly that this situation *will change.*

An excellent way for the U.S. and Mexico to move quickly, to show that a new day has arrived, would be to create an international air quality management district for the common airshed shared by the sister cities of Juarez, Chihuahua and El Paso, Texas. Troubled by very serious air pollution problems, a task force of business, government, and academic and environmental leaders from El Paso and Cd. Juarez has worked for the past six months to recommend creation of an international air quality management district and to investigate specific pollution reduction projects. EPA and SEDESOL officials have made important contributions to the work of this task force. The Environmental Defense Fund has discussed the details of this project with Mexico's President Carlos Salinas de Gortari and Secretary of Social Development Luis Donaldo Colosio. Both officials strongly support this projects and have designated staff members to work with us. In a September 8th letter to Governor Ann Richards, President Bill Clinton explained that he has consulted with Ambassador Kantor and Administrator Browner, and stated, "we all agree that your proposal for establishing an international air quality management district in El Paso/Juarez represents the kind of innovative approach our country needs in order to promote regional environmental protection."

We ask the Committee to direct the Clinton Administration to work with the Mexican government to get the international air quality management district up and running. With this governance framework in place, it will be possible to start cleaning up the air in El Paso and Juarez. This action is long overdue and it can be done at very little cost to the federal government.

We in the environmental community will continue to press our concerns—with or without NAFTA. We cannot solve all our environmental problems by enacting this or any other trade agreement. However, we sincerely believe that with this trade agreement we have moved the process forward, including setting the stage for a long-overdue reform of the GATT.

ATTACHMENT.—Recommendations for implementing Legislation, Statement of Administrative Action, and Committee Report

(1) REAFFIRM PROTECTION OF U.S. LAWS

We request that the implementing legislation specify that no provision of the NAFTA and no NAFTA dispute resolution panel decision which is in conflict with any U.S. federal, State or local statute can be given effect under the laws of the United States. No person shall have a private right of action to challenge a U.S. law as inconsistent with the NAFTA or a NAFTA dispute resolution panel decision Furthermore, it should specify that nothing in the NAFTA and no NAFTA dispute resolution panel decision will result in the pre-emption of any state or local law.

Through the statement of administrative action and committee report, require that the President to direct the U.S. Trade Representative to give notice to state and local jurisdictions and provide an opportunity for these officials to participate in formulating the U.S. response, if state and local laws are challenged. Also, require the President direct the U.S. Commissioner pursuant to the provision of the North American Agreement on Environmental Cooperation to harmonize standards upward and to raise international tuna/dolphin standards to U.S. levels.

(2) PROMOTE THE USE OF BI-NATIONAL AGREEMENTS

Through the Statement of administrative action and committee report, direct the President to expand efforts to work with Mexico and Canada to address transboundary pollution problems beginning with an international air quality management district for the El Paso/Juarez airshed.

(3) PROVIDE NECESSARY FUNDING

Through the implementing legislation, provide sufficient funding for the Border Environmental Administration and the Commission for Environmental Cooperation.

(4) OPENNESS AND PUBLIC PARTICIPATION

Through the statement of administrative action and committee report, require the President to direct the U.S. Commissioner to notify the public and to seek open procedures for all proceedings of the Commission for Environmental Cooperation.

THE IMPACT OF NAFTA ON THE ENVIRONMENT

	Issue	Without NAFTA	With NAFTA	Background – What NAFTA Does
1.	Trade agreements take precedence over international environmental agreements.	The GATT currently takes precedence over international environmental agreements.	**NAFTA gives listed international environmental agreements precedence over trade agreements, prioritizing and greatly improving protection of the environment.**	NAFTA, for the first time ever in a trade agreement, gives international environmental agreements precedence over a trade agreement. NAFTA provides that listed international environmental agreements take precedence over NAFTA (and thus over GATT because where there is a conflict between GATT and NAFTA, a Party can insist that the disputes be resolved under NAFTA rules, not GATT rules) and the U.S. government has stated that the Parties will agree to add additional international environmental agreements to the list before Congress votes on implementing legislation.
2.	U.S. environmental laws that apply within the United States can be potentially challenged if in conflict with trade agreements.	All trade decisions opponents of NAFTA point to were made under the GATT. To defend a U.S. law under GATT, the U.S. must show the law does not have the effect of creating an unnecessary obstacle to trade.	**For the first time since the creation of the GATT, we are assured that U.S. environmental laws that apply within the United States cannot be challenged successfully by a trade panel.**	The standard for challenge under NAFTA is whether the environmental law has a "legitimate purpose," a challenge that all U.S. environmental laws can meet. The U.S. will not have to show that its laws do not have the effect of unnecessarily restricting trade or that they are no more restrictive than necessary.

	Issue	Without NAFTA	With NAFTA	Background -- What NAFTA Does
3.	U.S. food, safety and pesticide laws can be challenged if they conflict with trade agreements.	All trade decisions opponents of NAFTA point to were made under the GATT. To defend a U.S. law under GATT, the U.S. must show the law does not have the effect of creating an unnecessary obstacle to trade.	**The NAFTA test is a great improvement over the GATT standard, making challenges to U.S. sanitary and phytosanitary laws far more difficult under NAFTA than under the GATT.**	The United States can set any risk level it wishes without challenge. U.S. sanitary and phytosanitary laws that implement risk levels must meet a "scientific basis" test that will be met if the law is based on data or information derived using scientific methods.
4.	Downward harmonization of standards.	The GATT regime that is currently in effect requires the United States to use international standards unless they are inappropriate for environmental reasons.	**For the first time, a trade agreement explicitly sanctions stricter standards than those set internationally.**	NAFTA specifically permits the adoption of environmental and sanitary and phytosanitary standards that are more stringent or result in a higher level of protection than international standards.
5.	The United States' cannot protect dolphins because such protection violates trade agreements.	A GATT panel has declared the U.S. law to be in violation of GATT.	**No change in the GATT panel decision, but a new framework is established within which this issue can be resolved.**	NAFTA adopts GATT rules for challenges to standards that are applied outside the United States. The NAFTA CEC, however, is tasked with harmonizing standards upward and, thus, this issue can and will be raised by the United States in the CEC which has the authority to resolve the issue.

	Issue	Without NAFTA	With NAFTA	Background -- What NAFTA Does
6.	Lack of public participation in resolving disputes raised in trade agreements.	GATT dispute resolution procedures are conducted secretly.	There will be greater public participation and transparency under NAFTA than if NAFTA is not adopted and GATT remains in effect.	NAFTA dispute resolution panels that hear challenges to standards operate under similar rules to GATT panels, but will have a roster of environmental experts to help them in analyzing issues. Side Agreement dispute settlement panels that hear allegations that a party is not enforcing its laws will generally act openly.
7.	Creation of "pollution havens."	No controls over U.S. firms moving to Mexico to take advantage of lax enforcement of environmental laws.	For the first time, Mexico has committed not to seek investment through weak environmental laws, and Mexico faces sanctions if they utilize nonenforcement of their laws as an inducement to investment.	The Agreement requires the Council to consult with the Free Trade Commission of the NAFTA when a Party believes that another Party is encouraging investors by not enforcing or by waiving its environmental law. Such failure to enforce laws can lead to penalties and trade sanctions.

	Issue	Without NAFTA	With NAFTA	Background -- What NAFTA Does
8.	Failure to enforce environmental laws.	**Parties and citizens will continue to lack the ability to influence another party's enforcement policy or to challenge a government's failure to enforce its environmental laws.**	**There will be a significant improvement in Mexican environmental law enforcement.**	Improves law enforcement. The Agreement mandates the Council to encourage each country to enforce its environmental laws. If a person or nongovernmental entity believes that a country is not enforcing its environmental laws, allegations can be submitted to the Secretariat which can investigate. If one country asserts that another country is engaging in a persistent pattern of failing to enforce effectively its environmental law, consultation ensues, and if consultation is unsuccessful, a dispute resolution process can follow that ultimately can result in penalties of up to $20 million, the imposition of an action plan to correct the pattern of violations, and in the case of the United States and Mexico, the imposition of trade sanctions.

Issue	Without NAFTA	With NAFTA	Background – What NAFTA Does
9. Insufficient spending on environmental infrastructure on the U.S.-Mexican border.	Current and likely future infrastructure funding is considered inadequate by everyone.	**Billions of extra dollars will be available for border infrastructure and cleanup.**	Provides massive new funding to address environmental problems in border areas. The proposed Border Financing Facility will make available billions of dollars for infrastructure spending and other environmental initiatives on the U.S.- Mexican border. The spending will be coordinated by a Border Environmental Administration with unprecedented levels of local input. Additional natural resource funding will be available through a separate conservation fund established by the three Parties.
10. Mexican citizens lack access to their courts to raise environmental claims.	Mexican citizens will continue to be barred from raising environmental claims in their courts.	**The provisions in NAFTA will produce changes in Mexico's legal system that will greatly benefit the environment.**	NAFTA mandates the three Parties ensure private rights of access to environmental remedies and that their administrative quasi-judicial and judicial procedures are fair, open and equitable.
11. Exploitation of natural resources.	Mexico's natural resources are subject to rapid depletion.	**For the first time, a specific framework is established for the United States to work with Mexico to protect Mexican natural resources.**	The NAFTA will include a new conservation fund. The CEC can develop recommendations on conservation and protection of wild fauna and flora and their habitats, including specially protected areas and endangered species. Under the Agreement, the Parties state that one of their basic objectives is to promote sustainable development.

Issue	Without NAFTA	With NAFTA	Background – What NAFTA Does
12. Trade agreements restrict the ability of the United States to place restrictions on exports such as logs.	There are no such restrictions in GATT.	There are not such restrictions in NAFTA.	NAFTA specifically allows such restrictions.
13. Inability to use export taxes.	The U.S. Constitution forbids the use of export taxes.	The U.S. Constitution forbids the use of export taxes.	NAFTA, like the U.S. Constitution, forbids the use of export taxes.

Issue	Without NAFTA	With NAFTA	Background -- What NAFTA Does
14 Economic development will harm the Mexican environment.	In the absence of adequate regulatory enforcement, economic development will continue to harm the Mexican environment.	The NAFTA package will provide the regulations and funding necessary to mitigate the impact of increased development on the Mexican environment while increasing the well being of the Mexican people.	The NAFTA package establishes a CEC with broad powers and responsibilities to review environmental problems in North America, propose solutions to those problems, and ensure law enforcement by the Parties. The NAFTA package provides for billions of dollars in new funding for environmental infrastructure problems and millions of dollars of new funding for conservation projects. The NAFTA package requires analysis of the environmental impacts of NAFTA and requires periodic reports on the state of the North American environment. Taken together, these beneficial effects of NAFTA should more than make up for any acceleration in environmental degradation if NAFTA succeeds in its primary goal of increasing Mexican prosperity.

Prepared by Winthrop, Stimson, Putnam & Roberts at the request of the Environmental Coalition for NAFTA: Conservation International, Environmental Defense Fund, National Audubon Society, National Wildlife Federation, Natural Resources Defense Council and World Wildlife Fund

September 27, 1993

PREPARED STATEMENT OF SENATOR GEORGE J. MITCHELL

Mr. Chairman, I want to thank you for holding this hearing on the North American Free Trade Agreement. I also want to thank Secretary Bentsen, Secretary Christopher, and Ambassador Kantor for testifying before the Committee today.

The North American Free Trade Agreement is one of the most important issues that we will address in the 103rd Congress. In the post Cold War world, economic security and expanding international markets are critical factors for the United States. The economies of the world's nations are interdependent, and the future of the U.S. economy is closely linked to its ability to respond to the demands of the international marketplace. Congress therefore must remain vigilant, watching the world markets and adapting our trade laws to the changing global economy.

In this post Cold War world, the United States cannot be complacent about our future in the world economy. This nation must actively develop and open foreign markets for U.S. goods and services. Japan is developing new markets in the Far East. The European Community is searching out new opportunities in Eastern Europe and the nations of the former Soviet Union. The United States must compete with our trading partners to develop emerging markets.

The North American Free Trade Agreement presents the United States with an opportunity to create the biggest market in the world—an economy of $6.5 trillion and 370 million people. This agreement also promises future access to the expanding markets in Central and South America and the Caribbean. The United States must support the efforts of U.S. businesses and workers to open these developing markets.

I support the North American Free Trade Agreement (NAFTA) because I believe the agreement is in the best interest of our nation. In the past seven years, U.S. exports to Mexico have grown dramatically, from approximately $12 billion in 1986 to over $40 billion in 1992. The U.S. trade balance with Mexico has improved from a $5.7 billion deficit in 1987 to a $5.4 billion surplus in 1992. Mexico is now our third largest trading partner. The North American Free Trade Agreement will further open the Mexican market to U.S. products. Over time, the NAFTA will eliminate Mexican tariffs, which average roughly ten percent—more than two and half times the average U.S. tariff of four percent.

A number of Maine industries and workers will benefit from the elimination of Mexican tariffs. The NAFTA will eliminate Mexican tariffs on such traditional Maine products as lumber, wood products, pulp and paper and sardines. Other Maine industries that may gain from an expanded Mexican market include blueberries, leather, scientific and medical equipment, and electronic equipment.

The recent liberalization of the Mexican market has provided new opportunities for Maine companies and workers. Maine exports to Mexico have increased sharply, more than twice the rate of the U.S. export growth. Maine exports have grown from $2,685,000 in 1987 to $23,471,000 in 1992, an increase of 774 percent. In 1992 alone, Maine exports to Mexico increased 63 percent.

A free trade agreement will inevitably cause short-term disruptions to some United States workers. Although this agreement will minimize the impact of these disruptions, we must provide comprehensive training and retraining programs for those workers who lose their jobs. To compete successfully in the global economy, this nation must support its work force with the necessary education and retraining so U.S. workers will continue to be the most productive in the world.

We can not build a wall around America and expect to prosper. Trade is in the American national interest, provided that it is fair, reciprocal, and organized in a way that maximizes our strengths. I support the NAFTA because the agreement will help the U.S. economy grow and prosper in the 21st century.

PREPARED STATEMENT OF SENATOR CARL LEVIN

Mr. Chairman and Members of the Committee, thank you for allowing me to testify today on the North American Free Trade Agreement (NAFTA). I recognize you have a long list of distinguished witnesses for today's hearing and I will make my statement brief.

There are a number of parts of the NAFTA text that make it an unfair agreement for the U.S. For instance, here are just two of the discriminatory barriers Mexico is allowed to maintain for 10 years as part of NAFTA while the U.S. has no equivalent restrictions:

(1) Mexico discriminates against U.S. assembled autos by requiring auto manufacturers to produce in Mexico in order to sell in Mexico. We have no such provisions in our laws.

(2) Mexico requires auto manufactures in Mexico to purchase a fixed percentage of the parts from Mexican manufacturers. We have no such provisions in our laws.

The argument is made that these discriminatory restrictions will be phased out. But with relatively slight reductions during the implementation period, they will be allowed to remain in place, as this chart shows, for 10 years.

We've lost 2.6 million manufacturing jobs between 1979 and 1991. If discriminatory provisions like Mexico's are continued, even on a somewhat reduced basis for 10 years, many more jobs will be lost. Why should we incorporate into U.S. law provisions that discriminate against our products for even 10 months?

But the major point I want to make today is that NAFTA'S job-creating claims are based on a major distortion of the facts.

The underlying premise supporting NAFTA is that U.S. exports to Mexico will increase and all exports create jobs.

The Commerce Department hands out a book—this book, which I have here—showing state-by-state exports to Mexico and another Commerce Department pamphlet translates every billion dollars in exports into roughly 20,000 jobs.

In fact, the Administration claims U.S. exports to Mexico have already created hundreds of thousands of U.S. jobs. It claims NAFTA will create 200,000 additional U.S. jobs by 1995 as a result of increased exports to Mexico. But this claim and NAFTA's very foundation is based on *highly distorted export figures.*

First, these calculations are based on export figures alone. They conveniently ignore the job loss as resulting from imports from Mexico to the U.S. In 1992, almost 90 percent of the alleged job gain disappears when you calculate jobs based on "net" trade figures as opposed to "gross" exports to Mexico. Where's the Commerce Department book on net trade figures and on job losses resulting from increased imports?

Second, even if you look only at exports, ⅓ of U.S. exports to Mexico go across the border for a few days or weeks for assembly and then come right back to America for consumption. But, believe it or not, the Department of Commerce classifies as "exports" those U.S. parts that are temporarily sent to Mexico for assembly and shipped right back to the U.S. But in reality, ⅓ of exports in fact represent little more than trading with ourselves.

What's more, ⅓ of U.S. exports that the Commerce Department shows going to Mexico don't represent jobs gained—they represent lost jobs to America. Many products used to be assembled in the U.S. and now are assembled in Mexico.

For example, take an assembly plant in the U.S. with 1,000 workers closes and moves to Mexico. 1,000 jobs are lost. But some U.S. parts suppliers continue to supply the new Mexican assembly plant. Although 1,000 U.S. jobs were lost when the plant moved to Mexico, the Department of Commerce counts the activity as a job creator because some of the parts are exported for a brief period to a new Mexican assembly plant.

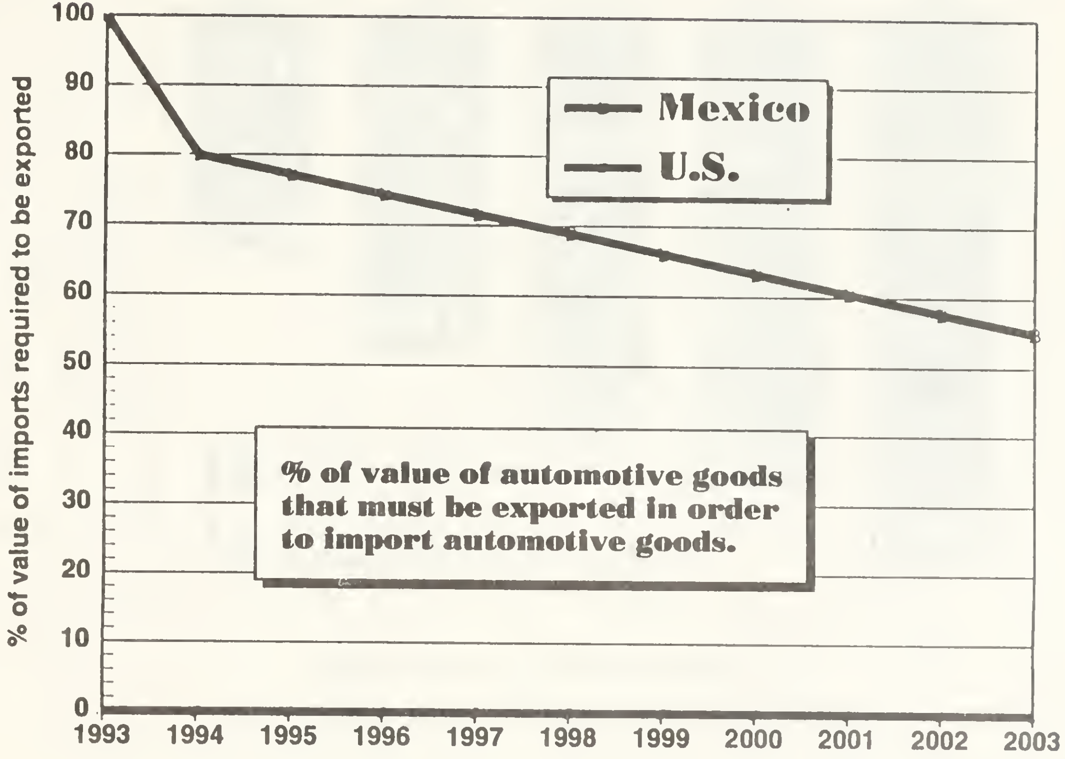
For that matter, if every assembly plant in America picked up and moved to Mexico and still used some U.S. parts suppliers, the way the Commerce Department figures things our exports and job growth would show a huge jump despite the catastrophic loss of U.S. assembly jobs.

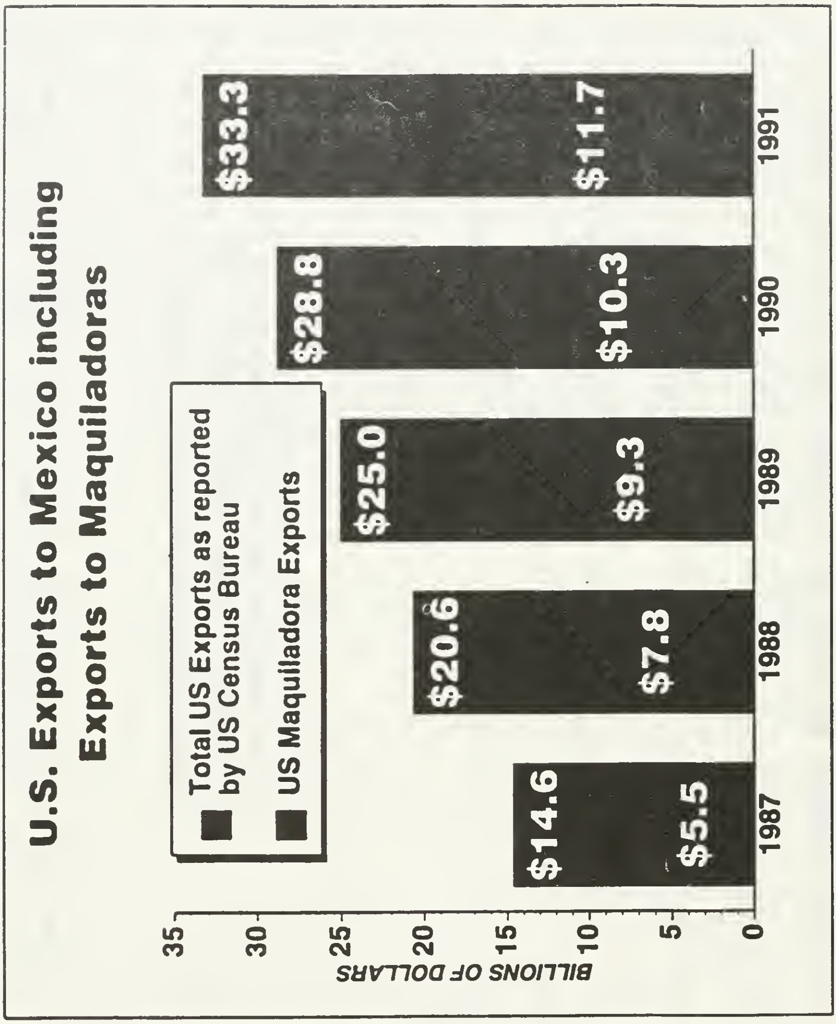
And this is not a minor point. 99 percent of maquiladora production comes right back to the U.S. With NAFTA, Mexico will become one big maquiladora.

In conclusion, about ⅓ of our exports to Mexico represent job losses. The new jobs claimed by backers of NAFTA is a gross distortion. It is based on a false assumption that increased exports should count as job producers while job displacement for increased imports need not be counted. It is also based on the false assumption that although a big portion of U.S. exports to Mexico are of parts and components to be assembled and promptly returned to the U.S., that they still all count as job producing exports.

Again, I thank the members of the Senate Finance Committee for this opportunity to testify.

Mexico's Trade Balancing Protections under NAFTA





U.S. Exports to Mexico including Exports to Maquiladoras

Prepared by Senator Levin

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PREPARED STATEMENT OF KARL P. PLATT

Thank you for the opportunity to address the Finance Committee on a matter with the gravity of the NAFTA

I wish to make it clear that I come here alone.

I am a glassmaker and I work to furnish consumer and architectural markets with hand—made glasswares. It has been my pleasure to have worked with the Usher's Office at the White House to cultivate domestic sources of hand—made windowpanes for the Executive Residence. This work was undertaken with the excellent craftsmen at the Blenko Glass Company, Milton, West Virginia.

Many hand-glass factories, like those in West Virginia, will simply not endure open commerce with Mexico. The fact is, Mexico enjoys absolute, rather than comparative advantages in this Sector. Unless the implementing legislation for the NAFTA furnishes meaningful compensation to plant owners and the craftsmen, who will without question be displaced, there is no compelling reason adopt it.

But I did not come here to cry the blues. On the contrary, the NAFTA seeks to make the relocation of capital into Mexico secure. Therefore, it handily enables those making a mix of high and low value added items to shift low-end production to Mexico, where it can be made much more profitably.

Yes, this gesture, and its kin, ultimately come at the expense of domestic employment. The NAFTA, however, recognizes that domestic employment does not always accrue the most efficient profit. Given the raw economic circumstances, one wishes the Tariff adjustment period for Sector 7013 were absent.

But all of this has little to do with why I accepted your kind invitation to come here today.

I believe that NAFTA debate has become mired in insoluble macroeconomic theory, shrill parochialism, and a host of high-minded platitudes, none of which are germane to any substantial discussion on the NAFTA.

Instead, we must consider the NAFTA in terms of whether it is good for United States and whether it is consistent with the Constitution.

In this light I wish to briefly consider the Agreement's Articles 19 and 20, which set out to define the protocols for dispute settlement. Some of their provisions are, at best, very poorly understood.

As I read it, Annex 2004, a Nullification and Impairment clause, attached herewith, arguably opens up State and *local* ordinances to scrutiny under Chapter 20's Panel process. Pertinent examples would be electrical codes, trucking regulation, professional licensure, insurance regulation or services certification, say, for exterminators.

The determination as to whether or not a State or local ordinance is compatible with the NAFTA does not take place in any sort of court anyone in this room would recognize. Rather, the matter is handed off to *ad hoc* dispute settlement panels who mediate in secret proceedings.

Panelists are to be chosen from a roster of lawyers and trade experts, who may well be beholding to non—party governments or trade interests for employment. There is nothing in the NAFTA to preclude this from occurring, and experiences with the U.S.-Canada FTA are troubling.

We also cannot ignore that Article 20 calls for the Panelist's code of conduct to be determined ex post facto or that Annex 1903.15 (c) calls for you to give the Panelists explicit immunity for their conduct.

I finally wish to call attention to Article 1904(11) which states in part:

> "No Party shall provide in its domestic legislation for an appeal from a panel decision in its domestic courts."

And to contrast that with the 10th Amendment:

> "The Powers not delegated to the States by the Constitution, nor prohibited by it to the state, are reserved to the States or to the people."

It would appear that the NAFTA circumvents the 10th Amendment.

NAFTA Parties are bound to either rescind or ignore any "measure" which a Panel deems to be an impediment to the NAFTA. Otherwise, the Party faces some largely unspecified "suspension of benefits." The benefit suspension, however, need not be made against the same Sector as that being disputed.

One can thus imagine that a future refusal by West Virginia to rescind its prohibition on "triple" semi rigs, could result in coercive Tariffs on U.S. telecommunications hardware going into Mexico. Here a traffic stop becomes an international incident.

Let me return to Articles 19 and 20.

Is it plausible that we could enact a law that eviscerates our useful courts by subordinating judicial review of local ordinance to *ad hoc* panels, which mediate in secret, are void of culpability, and from which there is no appeal?

I will go on record as having politely pressed Ambassador Kantor, and his General Counsel, Mr. Ira Shapiro, for clarification. They have responded with what sounds like obfuscation and hyperbole.

I understand that there is a strong, albeit very quiet, trade-foreign-policy initiative afoot which aims to combine the whole of the Americas in union as a trading bloc. While this may or may not be good, it cannot proceed upon the faulty premises of the NAFTA's Articles 19 and 20.

I urge you to let this hastily conceived agreement with its imprudent Dispute Settlement protocol die the death it deserves. Out of this unfortunate experience I believe the U.S., Canada and Mexico can draft a better agreement that preserves national sovereignty, better protects valuable domestic industries and cushions workers against severe dislocations.

Thank you.

POSTSCRIPT

In view of the fact that persons formerly employed by the United States government to define and uphold its trading position, and now employed by foreign governments and trade interests for representation in legislative matters, have mediated in Dispute Settlement Panels under the U.S.-Canada FTA, I beseech the Senators in the strongest possible terms to place language in near-term Supplemental Legislation to that Agreement which bans the USTR from placing any former Federal employees, except for retired judges, on the Panelist Roster.

I request that the Senate adopt a resolution urging the President to rescind Executive Order 12662 to restore the proper balance of powers that has contributed so well to our success as a nation of the world, and thereby expose the Dispute Settlement protocol under the U.S.-Canada FTA to the Constitutionally proper scrutiny it begs.

Finally, I entreat the Senate to more nearly guard its powers under Article I, Section 8 of the United States Constitution.

ANNEX 2004—NULLIFICATION AND IMPAIRMENT

[Italics Added]

1. *If any Party considers that any benefit it could reasonably have expected to accrue to it* under any provision of:

> (a) Part Two (Trade in Goods), except for those provisions of Annex 300–A (Automotive Sector) or Chapter Six (Energy) relating to investment,
> (b) Part Three (Technical Barriers to Trade),
> (c) Chapter Twelve (Cross-Border Trade in Services), or
> (d) Part Six (Intellectual Property),
>
> *is being nullified or impaired as a result of the application of any measure that is not inconsistent with this Agreement, the Party may have recourse to dispute settlement under this Chapter.*

2. A Party may not invoke:

> (a) paragraph (1)(a) or (b), to the extent that the benefit arises from any cross-border trade in services provision of Part Two, or
> (b) paragraph (1)(c) or (d), with respect to any measure subject to an exception under Article 2101 (General Exceptions).

PREPARED STATEMENT OF ROBERT B. REICH

Good morning, Mr. Chairman and members of the Committee. I am pleased to testify before you on the North American Free Trade Agreement -- better known as NAFTA -- and grateful for the opportunity to declare my conviction that NAFTA will prove to be a boon for America's workers. At the same time, I hope to underscore that reaping the fullest benefits of this historic market expansion requires two further measures. One has already been substantially completed: the negotiation of supplemental agreements on labor and environmental protection. The second is progressing rapidly: the development of a comprehensive worker adjustment system to ensure that no worker will face unaided the challenge of adapting to economic change, whatever its cause.

NAFTA AND JOB GROWTH

Let me begin with a point which is as close to a certainty as any projection possibly can be: NAFTA will make life better for Americans. I say this in full recognition of my role as Secretary of Labor -- Secretary of the American Workforce -- whose chief responsibility is more and better jobs for the working men and women of America. Indeed, I will be remiss in my duties if I fail to do all that I possibly can to ensure that we seize this chance for expanding job opportunities. The warnings of some well-amplified alarmists notwithstanding, NAFTA will benefit American workers.

International trade is not a zero-sum game. There is no fixed number of jobs to be parcelled out between the workers of the U.S., Mexico and Canada and the rest of the world. Market expansion is a positive-sum game in which all parties stand to gain. America has played this game, and prospered by it, throughout her history. We are poised for a solid payoff with our very next move, and this is no time to leave the table.

NAFTA promises to be an especially advantageous move for us because our markets are already largely open. NAFTA doesn't so much open the US market to Mexican goods as it opens the Mexican market to American goods. U.S. tariffs on Mexican goods average only 4 percent; Mexican tariffs on our products average ten percent -- two and a half times as high. Moreover, customs duties on merchandise assembled with American-made components in the "maquiladora" assembly plants lining the southern rim of the border area are charged only on value added in Mexico -- typically about one half of the cost of the product. The simple fact is that on this side of the border, there are few major trade barriers left for NAFTA to knock down.

The tentative opening of the Mexican market already implemented by President Carlos Salinas de Gortari and his predecessor hint at the gains NAFTA will yield for American firms and workers. Despite substantial remaining barriers against U.S. goods, the Mexican market is growing so quickly, and American producers are so well-positioned to serve it, that we are already selling far more to them than they are to us. From 1986 to 1992, U.S. shipments to Mexico grew from $12.4 billion to $40.6 billion. Our $5.7 billion trade deficit in 1987 was transformed to a $5.4 billion surplus in 1992.

Exports on this scale translate directly into jobs for American workers. Merchandise exports to Mexico today account for an estimated 700,000 jobs. And these are good, high-skill jobs. Many of these jobs simply would not exist had it not been for the 228 percent surge in merchandise exports to Mexico since 1986.

It's important to recognize that the job benefits of growing trade with Mexico -- even prior to the greater growth to follow the implementation of NAFTA -- are broadly based, occurring across geographic and sectoral lines.

Between 1987 and 1992, 48 of the 50 states increased their exports to Mexico. In 38 states the current dollar value of exports more than doubled, and fully half of the states saw shipments to Mexico increase threefold or better.

- New York's exports totalled $934 million in 1992, an 80% increase since 1987. Growth markets included industrial machinery and computers, electronic equipment, chemical products, and plastics.

- Michigan's exports grew by nearly 32% between 1987 and 1992, increasing to over $1.4 billion with large gains in most manufacturing categories.

- Pennsylvania's exports to Mexico totalled $742 million in 1992, with primary metal industries and electric and electronic equipment registering the largest gains.

- Illinois has enjoyed more than $1 billion in export sales growth, creating approximately 17,000 new jobs. Big gains were in industrial machinery, computers, and transportation equipment.

When Mexican consumers and businesses buy more U.S. electronics and telecommunications equipment made in California -- a category of exports that rose by more than 200 percent between 1987 and 1992 -- the workers who make this equipment gain job security. When Mexico boosts its consumption of refined petroleum products from Louisiana -- as it did by about 200 percent over the period -- Louisiana refinery workers gain job security.

This pre-NAFTA export surge has also been broadly shared across sectors of the U.S. economy. Between 1989 and 1992, exports to Mexico have increased in industry after industry, from automotive (101%), to iron and steel (110%), to textiles and apparel (103%), to electronic components (51%).

Our trading relationship with Mexico has paid off enormously despite relatively heavy restrictions on the flow of U.S. products into the Mexican market. Lifting those restrictions -- which is precisely what NAFTA will do -- will speed the creation of U.S. export jobs. As the Congressional Budget Office concluded in its July 1993 analysis, NAFTA will result in a net increase in U.S. employment.

In addition to generating more jobs in the United States, NAFTA also will lead to better jobs. Jobs created by expanded trade typically are the sorts of higher-wage, higher-skilled jobs on which the future of the American workforce depends. We simply cannot expect to sustain a prosperous and vibrant middle-class economy by competing with the rest of the world on the basis of low wages and low skills. Unskilled, routine jobs already are vanishing from the United States -- either moving to places around the globe whose inhabitants are eager to work at wages much lower even than Mexican wages, or being supplanted by machines which can do the work at a fraction of the cost. Our economy's future -- like that of every advanced economy -- depends on the continued creation of new and better jobs, fueled, in part, by exports to lower-wage nations at an earlier milepost on the path to prosperity.

Missing the boat on NAFTA will prevent us from reaping these potential gains. It also may jeopardize the existing trade relationship with Mexico that we have so diligently and profitably built over the past few years. If we fail to join with Mexico to create these new market opportunities on both sides of the border, we can expect that Mexico (like most countries) will seek other global alliances.

THE SUPPLEMENTAL LABOR AGREEMENT

Now let me turn to the North American Agreement on Labor Cooperation that will accompany the basic NAFTA accord. The President's early support of NAFTA was conditioned on the development of additional accords, to bolster the core agreement's terms in the areas of labor and environmental standards and import surges. Negotiations over the side agreements were concluded last month, and signed by the President last Tuesday. I am convinced, as is the President, that these side agreements strengthen NAFTA substantially.

What in the labor side agreement has advanced the Administration's position on NAFTA from conditional to enthusiastic support?

I'll begin with a vital and often-neglected point: The historic linkage of trade and labor issues embodied in the supplemental agreement. This represents the first labor agreement negotiated specifically to accompany and fortify a trade agreement -- the first attempt to match trade and investment rules with a more integrated framework for labor market policies -- the first attempt to manage the terms of the potential change in labor markets brought about by an accord between the U.S. and a trading partner.

The Supplemental Agreement satisfies the imperative that NAFTA not come at the expense of the environment or at the expense of workers' rights. The Agreement addresses issues such as protections concerning child labor, health and safety, minimum wage, and industrial relations.

To give these safeguards force, the Supplemental Labor Agreement was developed around three fundamental principles: First, enhanced collaboration, cooperation, and information exchange among the three countries. Second, increased efforts to make explicit and highly visible each country's labor laws and their implementation. Third, increased use of effective mechanisms to encourage the enforcement of national labor laws.

Perhaps most importantly, these principles will be enforced by administrative bodies and mechanisms with teeth. The Agreement creates a Commission for Labor Cooperation, consisting of a Council and a Secretariat and supported by National Administrative Offices. Let me first pledge my commitment, as Secretary of Labor, to use this Supplemental Agreement to protect basic worker rights and then describe the design and function of each of the mechanisms that will make enforcement possible.

- The Council, composed of the three Cabinet-level labor officials, will be the governing body of the Commission. It will have a broad mandate to oversee the implementation of the agreement, establish priorities for cooperative activities on labor issues, including occupational safety and health, child labor, benefits for workers, minimum wages, industrial relations, legislation on union formation, and labor dispute resolution. It will also facilitate party-to-party consultations.

- A Secretariat will provide technical support to the Council and will prepare periodic reports on a wide range of labor issues, including labor laws and their enforcement, labor market conditions such as average wages and productivity, and training and adjustment programs. The Secretariat will be headed by an Executive Director appointed for a fixed term by consensus of the three parties.

- National Administrative Offices (NAO's) will be appointed by each country to serve as a point of contact between Commission entities and national governments. NAOs will consult and exchange information on labor matters. Each country will have a right to determine the functions and powers of its own NAO and decide upon its staffing. The NAOs will serve as the vehicle for the public in each country to question and comment upon labor practices in the territories of the other parties.

- At the request of any Party, an Evaluation Committee of Experts (ECE'S), will be convened to examine many problems concerning the enforcement of labor laws. ECEs, composed of independent experts, will report and make recommendations on each matter as it is treated in each of the three countries. If a Party believes that another is demonstrating a persistent pattern of failure to effectively enforce child labor, health and safety, or minimum wage provisions, a Dispute Settlement Panel can be invoked. This Panel's decisions will be backed by the potential imposition of fines and trade sanctions.

The mechanisms described here will allow us to enjoy the fruits of the NAFTA accord and at the same time allow us to protect the basic rights of workers. Moreover, they do this in the appropriate way: by encouraging voluntary improvement and enforcement and resorting to sanctions only as a last resort. But make no mistake, the sanctions, once imposed, have teeth and will produce compliance with the terms of the agreement.

Before leaving my discussion of the supplemental agreements, I'd like to point out that the first fruits of this progressive, collaborative approach to progressive labor policy are already apparent in President Salinas' recent announcement that Mexico will link increases in the minimum wage to gains in worker productivity.

WORKFORCE ADJUSTMENT

NAFTA will mean more jobs and better jobs for American workers. It remains true, however, that despite the final tally of job growth, a tiny proportion of working Americans face the prospect of dislocation as a result of the changes NAFTA brings about. What of those Americans who find their jobs at risk? How do we respond to their very real anxieties?

Let me make four crucial points.

First, labor-market pressures resulting from NAFTA will not come as a sudden, sharp shock. The major changes will develop gradually, giving us time for adjustment. The agreement, it must be remembered, will be phased in over a decade. Workers in industries which have been most sheltered from competition will see barriers drop in stages, not all at once.

Second, a supplemental understanding on import surges provides a safety mechanism to give some breathing room if the pace of change proves too disruptive in particular cases.

Third, the total number of workers put at risk by NAFTA will be quite small relative to the opportunities generated by our large, rapidly changing national economy and relative to the total amount of job change that Americans will experience during the years that NAFTA is phased in.

Fourth, and perhaps most important, this Administration fully recognizes our obligation to ensure that no citizen bears disproportionately the costs of changes that benefit us all. And we are preparing to meet that obligation with a comprehensive strategy for helping workers who have lost their old jobs find new ones.

It is a comprehensive strategy whose motivation and effects go far beyond NAFTA. It is equally relevant to our challenge of scaling back weapons production and converting to a productive civilian economy, adjusting to the unprecedented technological changes shaking up entire industries, adapting to the downsizing of major corporations, and adopting production technologies that do not pollute the environment.

Each of these structural changes will benefit us as a nation. Each has as a side effect the potential dislocation of some small subset of workers from the jobs they now hold. But for every single person out of work and their families, the unemployment rate is 100 percent. People need to know that this Administration will have policies in place to help ease the transition from the old economy to the new. These policies will help people who believe their jobs may be at risk because of NAFTA -- just as they will be available to everyone who wants to or has to change jobs in the years to come.

Within the next few weeks we will propose legislation which will move us from a system that simply buffers the pain of unemployment towards a system that speeds displaced workers into re-employment.

For over fifty years, we've had an unemployment insurance system premised on the notion that what workers need most is some income assistance during economic downturns (typically lasting no more than six months) until they get their old jobs back in the same company or industry.

And we've had a scattershot array of job training programs, with each one designed to help a different category of workers who lost their jobs.

Unemployment insurance still helps people, of course. And particular identifiable groups of workers still need retraining. But given the huge structural changes in the American economy, this old system has become a band-aid rather than a cure. Lately, we're spending more than $35 billion a year just keeping people financially intact until a new job comes along. In each of the last two years, the federal government spent $12 billion simply extending unemployment benefits. The fact is that -- with or without NAFTA -- more and more Americans need to find new jobs in new industries. And many of them need retraining (often long-term retraining) regardless of the reason they lost their job.

As a first step, we will seek to identify permanently displaced workers early on. We've found that the early identification of dislocated (versus temporarily laid-off) workers, followed by early readjustment and job-search assistance for them, cuts their time spent unemployed -- along with the associated costs and pain. A recent review of six experimental programs that linked job-search components to the unemployment insurance program found that making this linkage is cost-effective.

Our re-employment system will feature universal access for displaced workers, so that the help they receive will depend on what they need to get a new job, not on the reason why they lost their old job. Assistance with unemployment insurance and job-search, counseling, and job retraining will be available through one-stop centers, with a minimum of red tape. Training will be offered by a variety of providers, with options to include basic skills training, literacy and numeracy, and occupational skills training, both classroom and on-the-job. States will be allowed -- and encouraged -- to develop other options to fit the particular needs and priorities of their citizens.

A fundamental flaw in our present unemployment compensation scheme is that while it supports people who are unemployed and looking for new work, it typically does not support people while they are receiving training for new work. We hope to eliminate this flaw. We aim to provide income support for displaced workers who need extended retraining and are making satisfactory progress in full-time training programs.

Finally, it is worth noting, in this time of tight budgets and eroded faith in public institutions, that reinvented government is a hallmark of the comprehensive worker adjustment system I have described. Just as our private sector has become more attuned to serving the customer quickly, flexibly and efficiently, so must our public sector. A shiny new training program does no good if it's giving people skills that aren't in demand. Filling out the same form for three different agencies wastes time, shortens tempers, and undermines confidence. For these reasons, accountable, customer-driven, locally-based ways of doing the public's business are built right into the ground floor of the our system -- not tacked on as an afterthought.

In short, this system is based on two imperatives. We don't have a person -- or a tax dollar -- to waste.

CONCLUSION

NAFTA presents a jarring disconnect between expert opinion and the public debate. As the members of this Committee surely know, economists like to disagree. Indeed, for a great many economists, disagreeing is both their profession and their hobby. And yet it is difficult to find more than a handful of serious economists who dispute the claim that NAFTA will be broadly beneficial. Lurid scenarios of economic catastrophe and skyrocketing unemployment, whether meant cynically or in honest error, are rooted in neither evidence nor in economic principle. Why, then, do such empty claims echo so loudly through the public debate?

I believe it is because for many Americans, general anxieties about economic change have crystallized -- erroneously, to be sure, but perhaps understandably -- around NAFTA, as a prominent, if relatively secondary, symbol of change. While anti-NAFTA hysteria will eventually be seen as groundless, the more general concerns about Americans' economic futures are all too well-placed. Since the 1970s, the real wages of most American workers have persistently declined. The average real hourly earnings of production and non-supervisory workers, mainly non-college workers, declined by 10 percent from 1973 to 1992 (and by nearly 9.5 percent from 1979 to 1992). Real wages have fallen even more dramatically for young, non-college workers. In fact, the percentage of year-round, full-time workers not earning enough to keep a family of four out of poverty increased from 12.1% in 1979 to 18% in 1990.

The job market is also growing more unstable, leaving an increasing number of Americans to work harder for lower wages, lower benefits, and less peace of mind. The number of temporary and part-time workers continues to grow. And the predictability of cyclical ups and downs has been complicated by permanent structural change. Over the most recent recession, permanent job losers accounted for a full 86 percent of the increase in layoffs. We can and we must address these sources of anxiety. But retreating from trade -- and in particular, balking at the opportunity NAFTA presents -- is no solution.

Anxious about the future and subject to so many sources of change that are beyond any chance of control, some Americans seem to hope that blocking this one source of change subject to a Congressional vote -- NAFTA -- will somehow reverse the tide of global economic evolution. But that tide of change is pouring in, whether we summon it or seek to turn it back. The change due to NAFTA specifically will be a mere ripple within the flood.

The question is not whether we turn back the rising tide, but whether it ends up lifting our prospects or gradually submerging them. And the answer to that question will depend on our readiness to cut loose the anchors that tether us to the old economy, and learn to navigate in the new economy. The choice is not change versus the status quo. It is whether we choose to shape the inevitable change, or opt instead to deny it, and in our denial define ourselves as victims rather than masters of our fate in the global marketplace.

RESPONSE OF SECRETARY REICH TO A QUESTION SUBMITTED BY SENATOR RIEGLE

Question: What is the difference between the Bush Administration Memorandum of Understanding (MOU) on Labor with Mexico and the Labor Side Agreement negotiated by the Clinton Administration?

Answer: The MOU signed on May 3, 1991 under the Bush Administration set out a list of cooperative activities to be accomplished bilaterally between the U.S. and Mexico. Cooperative activities are only **one Article** in the North American Agreement on Labor Cooperation (NAALC), which includes more than forty other Articles on issues ranging from consultations to trade sanctions.

Much of the Bush MOU sought to bring together U.S. and Mexican technicians to exchange information and experiences in the area of occupational safety and health. In addition, the MOU served as the framework for various comparative studies on labor law, child labor, and the informal sector.

The NAALC makes all activities, including cooperative activities, trilateral. Canada also has a preexisting MOU on labor issues with Mexico. But cooperative activities are only a fraction of what the NAALC provides.

First, the NAALC creates an institutional structure to ensure that the Parties cooperate, communicate, and are allowed to scrutinize the enforcement of each other's labor laws. The NAALC sets up a Commission, composed of a Ministerial Council and Secretariat, assisted by National Administrative Offices (NAOs). The Secretariat will coordinate cooperation among the Parties and produce periodic reports on labor market conditions, labor laws, and enforcement of such laws in North America. NAOs will be set up by each Party to receive submissions from domestic constituencies about alleged labor law violations and to respond to inquiries from other NAOs.

Second, the NAALC goes beyond simple cooperative activities and establishes a process by which Parties can address issues of concern on the enforcement of labor laws. The process is aimed at encouraging cooperation among the Parties to resolve issues. However, if such consultations fail, the NAALC provides a dispute settlement procedure which can force a Party to pay a fine or be faced with trade sanctions.

Third, the NAALC for the first time opens Mexican labor law procedures and enforcement up to public scrutiny.

The U.S. NAO may raise **any** issue related to Mexican labor law with the Mexican NAO. Whether the area of labor law is one that is covered by dispute settlement, any issue the U.S. or Canadian NAO cares to raise must be addressed by the Mexican NAO, and information discovered may be published. The NAALC will be an invaluable tool to subject labor practices in each Party to public scrutiny.

[Submitted by Senator Donald W. Riegle, Jr.]

[The New York Times, Sunday, March 21, 1993]

AMERICA'S NEWEST INDUSTRIAL BELT

[By Louis Uchitelle]

CHIHUAHUA, MEXICO.—Walk down the long rows of huge machines, newly installed in the freshly painted Ford Motor Company factory. Stop to examine the futuristic control panels that will run this automated factory. Watch Mexican engineers fine-tuning the new machines. And it becomes easy to imagine—except for the Spanish and the low salaries—that this most modern of engine plants is really in Dearborn, Mich., and not here on an arid plateau in northern Mexico.

Staffing the plant are people like Eleszor Faudoa, a 32-year-old technician equal in skill and motivation to the best in Dearborn, but earning only $1,000 a month, one-fourth the wage of an American counterpart. Currently, Mr. Faudoa heads a team completing the installation of machines that will grind the connecting rods for a new four-cylinder, multi-valve engine. Illustrating the sort of initiative often sought from American workers, Mr. Faudoa had a say in the machinery's design. "The manufacturers agreed to incorporate some of our suggestions," he said, "like those for a simpler electrical system and for easier access for maintenance."

The Ford engine plant is just one example of the rise of advanced manufacturing in northern Mexico, mainly to make products for export to the United States. A.T.&T. is making telephone answering machines; the Big Three, cars and engines; Zenith, television sets; Whirlpool, washing machines. The list goes on, deep into the roster of Fortune Magazine's 500 largest manufacturing companies. They are joined by other foreign giants, like Nissan and Sony, and a handful of Mexican manufacturers. Having invested millions, the Mexicans are exporting paper, tiles, glass and other products to America.

Northern Mexico—not just the border towns but a strip more than 300 miles deep—is rapidly becoming the newest American industrial belt. By most accounts, nearly 600,000 jobs have been located in Mexico that in the past might have been in the United States. Most are at maquiladoras, the simple assembly plants that pioneered the migration in the 1970's. But the maquiladoras are increasingly being automated, making them harder to tell apart from Midwestern factories.

THE 51ST STATE

"The technological superiority that retained the most advanced production in the United States is disappearing, so that northern Mexico is now almost a 51st state in terms of production," said Harley Shaiken, a labor economist at the University of California at San Diego, who has written on Mexico's industrial transformation.

"Boeing might still have a hard time making jet airliners in Mexico, but Mexican workers can match the skills of 70 percent of the labor force in the United States."

The rise of modern manufacturing techniques in northern Mexico seems certain to draw much more American industry to this country, hurting the American work force while amounting to only a mixed blessing for Mexican workers.

For Americans, it may no longer be true that a factory in the United States can be made more profitable than one in Mexico, even if a factory owner in America automates and retrains workers. Ford and others are discovering that semi-automation in Mexico—with equally skilled and trainable, but lower-paid workers—can be cheaper than full automation in the United States.

Many American executives argue that if they did not relocate to Mexico, they would be moving operations to low-wage countries in the Far East. Because Mexico is so close, the factories here at least buy their machinery in the United States, along with most of the parts that go into the products. That creates jobs in the United States. But a Mexican manufacturing belt increasingly capable of matching American production seems to guarantee a continuing shift of jobs to the south.

"That is going to create a political problem in the United States that is not likely to surface for two or three more years," Professor Shaiken said. "And when it does surface, it will be difficult to undo. The North American Free Trade Agreement will have locked in the open border arrangement that makes the job shifting possible."

For Mexicans, there is a gain as more companies hire people like Mr. Faudoa, creating a new class of factory managers and professionals. But the automation is also prompting factories to shrink the number of production workers. Partly for this reason, manufacturing employment in Mexico failed to grow last year.

Finally, to maintain the low wages that draw American companies to Mexico, President Carlos Salinas de Gortari has gotten commitments from business and union leaders to limit raises. It could be years before the gap with American wages narrows significantly, said John Pearlman, chairman of the Zenith Electronic Corporation, which has 20,000 employees in Mexico.

A COMING OF AGE

The transformation of Mexican manufacturing is only gradually becoming evident. Until now, the American presence had been most noticeable in the bordest towns, like Ciudad Juarez. The image there was of unskilled people earning very little to perform simple, repetitive assembly.

But farther from the Rio Grande, major cities like Hermosillo, Monterrey and Chihuahua are becoming more representative of northern Mexico's coming of age in manufacturing. The shipments north from these cities are contributing mightily to Mexico's merchandise exports, which reached $16.7 billion last year from a meager $10 billion in 1986.

The lure for the owners of Mexico's new factories is still low pay. But in the 1980's, corporate America realized that low wages could attract not only unskilled people," but also educated applicants in cities like Chihuahua that boast many graduates from public universities and technical schools.

"Without this pool of skilled people, we could not have put a high-tech factory in Chihuahua," said Lyle Raymond, manager of the Ford engine plant. The plant, which has made engines since 1984 for cars sold in the United States, is about to reopen after retooling to make the new four-cylinder engine.

Chihuahua, located on a mountain plain 230 miles south of El Paso, is a birthplace of' this process. Now, more than 40,000 people, nearly one-third of the city's workers, are employed in the pastel-colored factories that are spreading across the plain, appearing from a distance like tiny spots of fresh paint against a backdrop of steeply rising mountains.

The Ford engine plant's employees are a cross section of the new work force. One hundred are licensed engineers—earning $1,400 a month on average and often functioning as foremen, a task that American engineers consider beneath their skills. The 700 production workers are high school or technical school graduates, hired for the assembly line at $1.55 an hour and trained by Ford to work up to electrician, machinery repair, computer programmer or mechanic. The top pay for such specialties is $3 an hour. Mr. Faudoa is a graduate of these ranks, having risen through endless training to be a supervisor of foremen.

The Ford pay, slightly above the norm for Mexico, is deeply below American levels, where a manufacturing worker's average wage is $11 an hour and an engineer newly out of school commands $25,000 to $30,000 a year as a starting salary. By comparison, Esquiel De Luna, a 20-year-old sophomore in electronic engineering at the Institute of Technology here, expects to earn $400 a month—$4,800 a year—at one of the factories upon graduation, and work up to $12,000 annually in three or four years. "I would not take a first job as an engineer for less than $400," he said.

THE SHRINKING PAYROLL

Seeking to maintain the low-wage lure, President Salinas got business and labor to agree to hold annual wage increases to less than 10 percent this year, in a nation that had 12 percent inflation last year. But he is losing ground on another front: he has promised Mexicans thousands of new jobs, many from American companies here. Now, factory modernization is undercutting this goal.

Just as companies in the United States have automated and shrunk their staffs, automation is limiting job growth in Mexico. The automation here, however, is meant not to save wages, but to improve quality.

"Sixty percent of what we once did by hand is now done by machinery," said Elio Bacich, director of a maquiladora here owned by Zenith that produces circuit boards and TV coders. Employment at the plant has fallen to 2,400, from 3,300, in recent years.

The trend is very visible in Chihuahua, a city of nearly 600,000 with striking combinations of new homes near squatter neighborhoods and shiny malls a few blocks from rundown stores. The population has tripled since the 1970's, and as people migrated here from rural areas, jobs grew at an 8 percent annual rate—until the 1990's, when job growth halted, at 140,000 employees.

"I would say that the unemployment rate in the city has risen to 8 percent or more, double what it was three years ago," Mayor Patricio Martinez said. "This does not include housewives who worked and now don't. We don't count them as unemployed."

The growing automation is chipping away at a widely held economic theory. That theory states that Mexico and other low-wage countries should be centers of labor-intensive operations while the industrial nations should remain home for the best manufacturing technologies. But some American companies are finding the arithmetic of partial automation in Mexico persuasive. Given their low wages, five Mexicans operating a partly automated assembly line here cost less than one or two Americans on a fully automated line in the Midwest.

Nothing illustrates the trend more clearly than Ford's decision to switch the manufacture of dashboard gauges from a factory in Saline, Mich., to a Ford-owned maquiladora in Chihuahua named Altec. Altec employs 3,000 people to produce radios and other car components. It is assigning 700 people to the production of dashboard gauges, replacing 400 workers in Michigan by 1995. The alternative would be to automate in Michigan.

"When you automate, you get rid of direct labor, but you add indirect labor costs for very skilled people to maintain the more complicated equipment," said Thomas E. Davis, Altec's controller. Mario M. Okubo, Altec's manager, put it more simply. "We brought the production here and saved the business," he said.

GETTING THE SKILLS

The pressure to be more skilled also touches young women like Magdalena Munoz, a 19-year-old operator in an automated assembly process at the Zenith plant, which like most of the 60 maquiladoras in Chihuahua is evolving into a higher-tech factory.

Young women seated at long tables in one area of the warehouse-like building still function in traditional maquiladora fashion, repetitively placing plastic and wire prongs into slots. These are the larger parts of a circuit board, and the labor-intensive work that these women do, for $1 an hour, originally prompted Zenith to shift production to Chihuahua from factories in the Midwest.

But technology has miniaturized other circuit board components, so that many tasks can no longer be done with precision by hand. And not far from the women seated at their tables, Zenith has installed computer-controlled machines to stamp or glue these tiny parts onto circuit boards. Ms. Munoz has been trained to operate one of these machines.

As the boards emerge, she scans a computerized readout to make certain the parts have been properly placed; if they haven't, she adjusts the machine or tries to fix the problem by hand. If she can't, she calls over a technician or engineer.

Ms. Munoz's pay is 137 pesos, or $45, for a 45-hour week, the same as the wage for the women assigned to hand assembly. A dollar an hour is the standard factory wage in Chihuahua, although the most modern factories—like the Ford engine plant—start production employees higher, at $1.25 or $1.50 an hour. These factories employ mostly young men, while the maquiladoras hire mostly young women.

Ms. Munoz's wage might rise with more training, if she stays. Worker turnover at maquiladoras is often more than 20 percent a year. That is a new problem for companies increasingly in need of retaining experienced workers to operate automated machinery. Rather than raises, other incentives are offered to try to keep people like Ms. Munoz.

A company bus takes her, free of charge, from her parents' home outside the city, a 90-minute trip, and returns her at day's end. She gets two free meals on the job. There is a free health clinic and some factories, like Altec, have ball fields, gymnasiums, adult education courses and social halls that workers can use for family weddings and parties.

But Ms. Munoz's day lasts from the time she rises before dawn until she returns home after dark from her long commute. She had kept a similar schedule for a year at another maquiladora, and then took a year off. Will she stay this time, and go through more training to master the complex equipment that Zenith is installing?

A partial answer comes from Graciela Ramos, who directs a center for working women. "These women see themselves as subjected to intense work and, increasingly, skilled work," Ms. Ramos said. "They know that what they do is worth much more in the United States. They don't discuss this even among themselves. The turnover is their resistance; when they can't take it anymore, they quit. But they take jobs again. Despite everything, the work gives them a sense of self-respect that women don't get at home."

Gerald Gonzalez, 22, is a notch or two above Ms. Munoz in Mexico's work force hierarchy. He was among 125 young men hired recently by Grupo Ponderosa to operate its new paper mill. For years, the Mexican company has manufactured pulp at a plant outside Chihuahua, and now it has opened a paper mill alongside the pulp factory, investing $230 million in the project.

Rather than just sell pulp to Mexican companies, the struggle now is to compete across an open border against American companies that also produce white paper for writing and for copying machines. Mr. Gonzalez and his. mates, having survived the hiring tests, are being trained to operate the complicated machinery, made in Finland.

"If this group can learn all the tasks and have a vision of the whole paper-making process, including how to maintain the equipment and repair it, these young men will be more valuable, even though most of their work will be repetitive," said Hector M. Raynal, the plant's director.

That is two years of training, at the end of which Mr. Gonzalez is to earn 250 pesos—$83—for a 48-hour week, or $1.73 an hour. He now earns 165 pesos a week, or $1.15 an hour.

Grupo Ponderosa has recruited its new paper mill workers not from Chihuahua, but from two smaller communities nearer the paper mill, where 165 pesos a week seems like a lot. Furthermore, "For only 17 pesos a month," Mr. Gonzalez said, "I live with my wife and baby in a bungalow on the plant grounds."

Grupo Ponderosa has managed to add the paper mill to the pulp operation without increasing the work force. Having installed a partly automated mill and having upgraded the pulp operation, the company is operating the complex with 400 people—the same number that once staffed only the pulp plant.

WEIGHING THE COSTS

That sort of labor savings is helping to fuel a debate over whether Mexico's low wages still justify shifting production to this country—since even here the labor content of a given product is declining. For example, George Baker, an Oakland, Calif., economic consultant whose specialty is Mexico, argues that Mexican production is burdened by other costs, not present in the United States, that offset the savings in wages. These include poor transportation, power outages and an absence of nearby suppliers.

Mr. Pearlman of Zenith disagrees. "When I factor in other nonlabor costs—less heat, cheaper land and cheaper construction—there is no question that Mexico's lower labor costs are decisive," he said.

So are Mexico's markedly nonmilitant unions. And nonlabor costs are falling as the infrastructure improves. Until its engine plant closed for retooling in 1991, Ford had been shipping engines north to El Paso by railroad. Now, tractor-trailers will haul the engines in half the time on a recently opened high-speed toll road.

The plant here and a Ford engine plant in Dearborn had competed to be the manufacturer of the new four-cylinder engine. The final decision, depriving Dearborn of 500 jobs, involved factors that went beyond labor costs, Ford officials said.

Ford originally put the engine plant here to satisfy Mexican export requirements for doing business in this country, and those requirements won't disappear completely during the first decade of the free trade agreement. Then, too, Ford sells more than 100,000 cars a year in Mexico, and the bad publicity from shifting Chihuahua's production back to the United States could have hurt Mexican sales, Mr. Raymond, the plant manager, said.

Finally, retooling the Dearborn plant would have required an extra $20 million investment—$420 million versus $400 million here—for enough automation to reduce the labor force.

Thus companies drawn by low wages find other reasons to stay, entrenching northern Mexico as an American industrial belt.

FOR MEXICAN COMPANIES, OPPORTUNITY AND PERIL

The integration of northern Mexico into the United States industrial base is bringing opportunity to some Mexican companies and peril to many others.

Among those prospering in Chihuahua is the Almeida family, which has multiplied a grandfather's brick factory into a modern manufacturer of household and commercial tiles, employing new Italian technology.

Nearby clay deposits, owned by the Almeidas, give their company, Interceramic, an important advantage. So does the recently installed automated machinery that carries out most of the production process. The company's largest bank lender, Banamex, is also a big shareholder, and an American partner, Armstrong World Industries, helps with marketing in the United States, where 20 percent of Interceramic's output is sold.

"If you put the same plants here and in the United States," said Victor D. Almeida, Interceramic's chief executive, "with people of similar skills earning similar wages, the cost here would still be 5 to 10 percent less."

Maybe. Grupo Ponderosa, owner of a pulp-factory and a new paper mill here, has not been so lucky. It is going against an American industry more powerful than American tilemakers. With Mexican tariffs slashed, American paper companies raised sales here by 64 percent in 1992, endangering Mexican paper companies that buy Ponderosa's pulp.

In building a paper mill, Ponderosa hoped to compete against the Americans, not only in Mexico but in the nearby Southwestern United States. So far, the strategy has not worked; the company has lost money and recently renegotiated $200 million in debts.

"The United States industry is very competitive," said Irene W. Meister, a vice president of the American Forest and paper Association. She added that American paper makers had an advantage in technology chemicals and wood supplies—advantages the new free trade agreement will strengthen.

And then there is Arnulfo Solis D'Santiago, president of Chihuahua's Association of Small Manufacturers and himself the owner of a company that makes truck bodies and trailers. His work force is down to 52, from 76, and production has fallen to 400 units a year, from 1,500.

Second-hand American trucks, driven south in growing numbers, are cutting into the business, Mr. Solis said, and now that quotas have been lifted on new truck imports, he is expecting to be hurt from that quarter, too. "All our members have the same problem," he said. "We lack the economies of scale, the technology and the marketing to compete."

And Mr. Solis's solution? Well, he is trying to ally with a Minnesota company that makes hydraulic dump truck lifts. Mr. Solis would sell the lifts in Mexico and the American company would sell his dump truck bodies in the United States.

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Manuscripts: Address to "The Editor." Not responsible for the return of unsolicited manuscripts unless accompanied by addressed, stamped envelopes. Unsolicited faxed manuscripts will not be acknowledged unless accepted.

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The Nation (ISSN 0027-8378) is published weekly (except for the first week in January, and biweekly in July and August) by The Nation Company, Inc. © 1993 in the U.S.A. by The Nation Company, Inc., 72 Fifth Avenue, New York, NY 10011. (212) 242-8400. *Washington Bureau*: Suite 308, 110 Maryland Avenue N.E., Washington, DC 20002. (202) 546-2239. Second-class postage paid at New York, NY, and at additional mailing offices. International Telex: 667 155 NATION. Subscription orders, changes of address and all subscription inquiries: *The Nation*, P.O. Box 10763, Des Moines IA 50340-0763, or call 1-800-333-8536. *Subscription Price*: 1 year, $48; 2 years, $80. Add $18 for surface mail postage outside U.S. Missed issues must be claimed within 60 days (120 days foreign) of publication date. Please allow 4-6 weeks for receipt of your first issue and for all subscription transactions. Back issues $4 prepaid ($5 foreign) from: *The Nation*, 72 Fifth Avenue, New York, NY 10011. *The Nation* is available on microfilm from: University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106. Member, Audit Bureau of Circulations. POSTMASTER: Send address changes to *The Nation*, P.O. Box 10763, Des Moines IA 50340-0763. This issue went to press on May 27. Printed in the U.S.A.

EDITORIALS.

No to NAFTA

Public policy, like high technology, suffers from a surfeit of interlocking variables. Star Wars seemed like a wonderful idea to Dr. Teller and President Reagan, but it collapsed when most of its component systems proved unworkable, inefficient and prohibitively expensive. The North American Free Trade Agreement, the brazen corporate lobbying for which is the subject of this week's special issue, a joint project of *The Nation* and the Center for Public Integrity, is a commercial correlative of Star Wars: it likewise sounded dandy when President Bush proposed it in preparation for his 1992 campaign (picking up on Jerry Brown's idea from the late 1970s). But when its various elements are analyzed, it looks unnervingly like a cost-inefficient, socially regressive and ultimately self-destructive *canard* that cannot possibly fly.

Two widely divergent aspirations fueled the idea. On the one hand, some advocates of radical realignment in the international economic order theorized that a North-South trade treaty could enrich the poorer countries while rationalizing the economies of the industrial giants. Their model (rich in falsity and self-delusion) was Japan, which long ago began farming out its basic industries, and then its manufacturing, to its Pacific Rim neighbors, such as South Korea, which overnight became a steel-smelting, car-making, TV-spawning partner, with its burgeoning per-capita income fostering a new democratic consciousness. The Japanese were then free to concentrate on research and development of hyper-tech systems (mightily subsidized by the government), high finance and business management.

The other hand was played by the transnational corporate class, which cared little for partnership or democracy in the undeveloped world but saw a North-South treaty as a way to maximize profits for the North by cutting labor costs, killing unions, avoiding regulation, exporting ecocide and tying up half a hemisphere in a "single market," U.S.-controlled and competitive with the looming power of the European Community.

Naturally, the corporates prevailed over the progressives during the Reagan years, which saw the negotiation of a free trade treaty with Canada, and during the Bush presidency, when the treaty's extension to Mexico was bruited. The Canadian economy was duly damaged by the loss of hundreds of thousands of jobs to lower-wage U.S. shops (proponents had, of course, promised a substantial net gain in employment and higher Canadian wages), the shriveling of domestic investment from 18 percent a year to just 2 percent and the bankruptcy of countless local businesses.

But during the run-up to the 1992 election, real opposition to the Mexican extension grew among some labor unions and their Congressional supporters. They argued that American factory workers, with their average hourly wage of $11, could not possibly compete with Mexicans, who make, on average, under a dollar; that the appalling decline of manufacturing in the United States would be accelerated; that industrial unions here would all but disappear ("replaced," as it were, by undemocratic government-sponsored unions in Mexico); that American minority workers would be shut out from advancement to middle-class jobs and lives, with all the social consequences that entails; that pollution would rise in Mexico and toxins would be reimported to the United States in foodstuffs; that the profits of the biggest corporations would bulge, while the overall U.S. standard of living would sag; and that far from becoming partners in prosperity, the countries of North America would become accomplices in decline.

Funded by corporate as well as union PACs, committed to free trade while sympathetic to some protectionism (against Japan, mostly), eager to be all things to all people, candidate Bill Clinton declared a policy of "yes, but" on President Bush's "fast track" NAFTA negotiations with Mexico this past summer. Clinton was strongly influenced by Harvard professor (now Labor Secretary) Robert Reich, who believes that transnational power is essentially unstoppable by protectionist policies, and all that is left for the United States to do is work within the new world corporate order by educating young people and retraining some workers for the postindustrial economy (see Andrew Kopkind, "Doctor Reich's Economic Rx," August 17/24, 1992).

As President, Clinton continues to press for side agreements to NAFTA on pollution and labor democracy in Mexico, which are essentially unenforceable, while ignoring the vastly more important issues that affect the very structure of the U.S. economy. For NAFTA is no simple exercise in good-neighborliness. It is a watershed in U.S.—and Mexican—economic history. To ratify the treaty is to condemn U.S. workers to more hard times, to confine Mexican workers to an economic ghetto utterly dependent on El Norte, to reduce the power of labor against ownership, to ravage the American industrial landscape and to transform forever the dream of America as a just and prosperous place of hope.

ARTICLES.

BIG $$$ LOBBYING IN WASHINGTON

Can Mexico and Big Business USA Buy NAFTA?

CHARLES LEWIS AND
MARGARET EBRAHIM

In the summer of 1992 a Congressional aide boarded a plane at Washington's National Airport with some of her colleagues and flew down to Mexico City. Donsia Strong, a staffer with Representative John Bryant, a Texas Democrat, had been invited to take an all-expenses-paid fact-finding trip to Mexico to learn more about the North American Free Trade Agreement (NAFTA).

Her visit was arranged and paid for by a Mexican organization called the Coordinating Council for Export Business (COECE), which was created in 1990 to promote NAFTA and which works closely with the Mexican government. Strong's trip was one small part of a massive lobbying crusade waged by the Mexican government and Mexican corporations on behalf of NAFTA, which its supporters claim will create widespread prosperity and a free-trade zone linking the United States, Mexico and Canada. Opponents of the pact, including labor, consumer and environmental groups in this country and Mexico, contend that NAFTA will spur corporate flight to Mexico, hemorrhage jobs from the United States and undermine environmental, health and workplace safety regulations.

There was nothing illegal about Strong's trip—or for that matter in having a foreign business organization finance it. That's the way things are done in Washington, where lobbyists—legislative mercenaries—routinely rig debates for big-bucks clients. (Incidentally, Strong now works in Bill Clinton's White House; one of her areas of responsibility is preparing legislation to reform lobbying.) Strong was not the only U.S. government official to make a trip south of the border at Mexican expense. In the past two years, Mexican business interests have paid for so-called fact-finding trips by dozens of Congressional staff members, a handful of legislators and one governor. And this has been merely one tactic employed by Mexican corporate and government interests to influence policy-makers in Washington.

The debate over NAFTA, which will climax this fall when both the Senate and the House vote on the treaty, has yielded the most extensive—and expensive—foreign lobbying campaign on a specific issue ever seen in the capital. Since 1989 the Mexican government and business groups have spent at least $25 million to promote the development and enactment of NAFTA, hiring a phalanx of Washington law firms, lobbyists, public relations companies and consultants. That figure is conservative because it represents only the total that was reported to the Justice Department by Mexico and its hired guns.

> *'This is a David and Goliath fight. One side has money and the other doesn't.'*

To comprehend the magnitude of this effort, consider the costs of the three largest, most notorious foreign lobbying campaigns waged in Washington in the past quarter-century. In 1990 Hill and Knowlton was paid $10 million by the Kuwaiti government to persuade the American people of the need for U.S. military intervention in the Persian Gulf. In 1987, after the media disclosed that a Japanese company had illegally exported high-tech equipment to the Soviet Union, Japanese corporate interests initiated a major lobbying drive to prevent legislative retaliation. Up to $9 million was lavished on that campaign. And in the late 1970s, in the scandal that became known as "Koreagate," South Korean rice broker Tongsun Park acknowledged that he had distributed gifts and cash to thirty-one members of Congress from 1967 to 1977. Three Congressmen were officially reprimanded by the House of Representatives, and one was convicted of conspiracy to defraud the government. The value of Park's payments and gifts totaled roughly $850,000. Mexico's pro-NAFTA expenditures have already exceeded the combined resources of these three lobbying campaigns.

Hermann von Bertrab, a Mexican businessman who was enlisted by President Carlos Salinas de Gortari to be director of Mexico's Washington NAFTA office, acknowledges that the Mexican government alone will spend roughly $10 million on NAFTA-related activities in 1993 and that it spent about $18 million for 1991 and 1992. But he insists that only a small proportion of this money goes to lobbying. This is a common refrain of lobbyists when they describe their Washington operations. The trick is to define lobbying rather narrowly, excluding public relations, propaganda (called "education"), political intelligence and strategy development—all key aspects of lobbying.

Charles Lewis, a former producer for 60 Minutes, *is the founder and executive director of the Center for Public Integrity, in Washington. Margaret Ebrahim is senior associate at the center. Diane Renzulli, Cindy Collins, Bill Baldwin and Dain DeMarco contributed substantial research to this project. The center, which just published* The Trading Game: Inside Lobbying for the North American Free Trade Agreement *($10), is an independent, nonprofit organization that examines public service and ethics-related issues by combining investigative reporting and political science. It is funded by foundations, corporations, labor unions, individuals and revenue from news organizations.*

The Mexican government and Mexican corporate interests have used much of those millions to purchase the expensive services of a potpourri of inside-the-Beltway specialists. Former U.S. government officials, who know how to massage the Washington political system, have been snatched up and placed on Mexico's payrolls. Indeed, since 1989 Mexican interests have hired thirty-three former U.S. officials who worked for a variety of government entities: Congress, the State Department, the Treasury Department, the Office of the U.S. Trade Representative and others. Their mission is to influence the political process for what is arguably the most significant trade issue to have faced the American people and their elected representatives in this century.

Why is the passage of NAFTA so important to Mexico? Because its government and corporations expect that a freshet of desperately needed U.S. investment and consumer dollars will flow into their country once the trade barriers between the two nations fall. A few million dollars is a small price to pay for what they hope will be a multibillion-dollar bonanza.

U.S. corporations that favor NAFTA—mainly companies eager to gain access to the labor and consumer markets south of the border—have mounted their own lobbying effort. Although there are practically no disclosure records now available to document expenditures, U.S. business interests are clearly spending millions of dollars. Large companies like Eastman Kodak, American Express and General Electric are members of an umbrella organization called USA*NAFTA that is waging a national campaign, and have hired the Wexler Group, the firm headed by superlobbyist Anne Wexler, the former Carter White House aide. The U.S. corporate effort works in close coordination with the Mexican government; one top Mexican official in Washington conducts liaison with the U.S. companies campaigning for NAFTA. Canada is more than adequately represented in Washington, but it has not been particularly aggressive in its lobbying for NAFTA. Canada, of course, already has a free trade agreement with the United States.

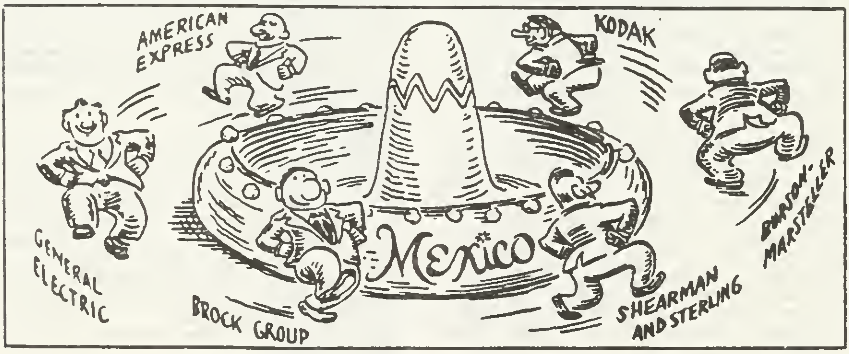
All this intensive lobbying by U.S. and Mexican interests is dedicated to drowning out any contrary or questioning voices in the United States. It is focused like a laser on the Washington power elite and aims to see that a treaty is approved that favors corporate interests.

"This is a David and Goliath fight," notes Pat Choate, a leading expert on foreign lobbying in Washington. "One side has money and the other doesn't. What you've got here is a lobbying blitzkrieg [by Mexico and by U.S. and Mexican corporations]. They are able to bring to bear the presence of the President of Mexico, the Cabinet of Mexico, the Ambassador from Mexico. They have the major think tanks, the Council on Foreign Relations, the International Institute of Economics, the Council of the Americas, full access to the editorial boards and pages of the major and regional newspapers in this country. They are utilizing the full lobbying resources of the Business Roundtable, the National Association of Manufacturers, the Chamber of Commerce and the 100 largest industrial corporations in the United States. In addition to that, they've hired as lobbyists on retainer every leading trade expert in this country. Finally, anyone who opposes NAFTA is described as a racist, a xenophobe or someone who is ignorant of economics."

The Mexicans Are Coming

When Mexican President Salinas took office in December 1988, he was not enthusiastic about knocking down trade walls between his country and the economic behemoth to the north. But the views of this Harvard-educated economist changed. In early 1990, Salinas and several top ministers visited Europe and discovered that the Western Europeans were primarily interested in investment, trade and aid opportunities in the Eastern European nations breaking free of the Soviet Union. Salinas concluded that the world was dividing into trade blocs. He did not want to see Mexico left out. The only choice, he decided, was fuller economic integration with the United States.

While Salinas was contemplating the economic future of his country, officials in George Bush's State Department and National Security Council were kicking about various trade proposals, including extending the U.S.-Canada Free Trade



ILLUSTRATIONS BY ROBERT GROSSMAN

Agreement, signed in 1988, into a wider pact that would include Mexico. Eventually, Salinas let Washington know he was thinking along the same lines. In June 1991, the three nations opened talks on a trilateral agreement. A year and a half later, the pact—drawn up under conditions of unprecedented secrecy—was signed by Salinas, George Bush and Canadian Prime Minister Brian Mulroney at a ceremony in Washington.

Once Mexico was committed to a treaty, it wasted little time in lining up influential Americans who could grease the wheels of Washington. In September 1990, Mark Anderson, the A.F.L.-C.I.O.'s veteran international trade analyst, received a telephone call at his Washington office from a Mexican Embassy official, asking whether he was willing to meet with Herminio Blanco, who would soon become Mexico's chief trade negotiator on NAFTA. Anderson agreed, and over breakfast at the Ritz Carlton Hotel, Blanco spoke of Mexico's keen interest in NAFTA, and in the Mexican government's desire to make NAFTA a reality in Washington. Blanco told Anderson he was "in town lobbyist shopping." By any standard, the shopping became a spree.

In 1990 and early 1991, Mexico was confronted by a daunting task: figuring out where to apply influence so that the U.S. political system would work in its favor. According to von Bertrab, Mexico's NAFTA liaison in Washington, at the start of its pro-NAFTA drive Mexican officials realized they had very little experience and knowledge about the inner workings of the United States. "We really did not have a clue," he says. But clues could be bought very easily. There was another problem, though: the general perception of Mexico in the United States. The Salinas government hoped to change the view of Mexico as a low-wage, socially troubled, environmentally polluted country that exports illegal aliens to the United States.

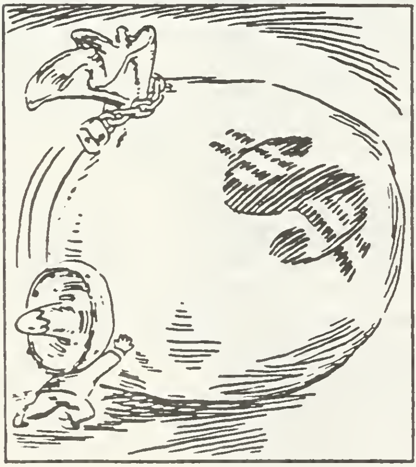
The Mexican government, through its Ministry of Commerce and Industrial Development (SECOFI), opened a Washington office separate from its embassy and hired a number of well-connected Washington law, P.R. and lobbying firms. Their overlapping missions were influencing legislators, recasting Mexico's public image in the United States, establishing "grass roots" support for NAFTA in the fifty states, gauging actual U.S. negotiating strategy. In a short period of time, Mexico was wired.

Von Bertrab speaks almost daily with Jorge Montano, Mexico's Ambassador to the United States, and Jaime Serra Puche, who is in charge of SECOFI in Mexico. On most Fridays, von Bertrab meets with SECOFI's chief lobbyists working Capitol Hill. A larger group of consultants and analysts working for Mexico, NAFTA "allies," also meets at his office about once a week.

Von Bertrab also has his own intelligence-gathering system. Every week Stephen Lande, a former Assistant U.S. Trade Representative who now works for the consulting firm Manchester Trade, sends von Bertrab papers on specific NAFTA trade issues and strategy. One of von Bertrab's key aides maintains regular contact with Gail Harrison of the Wexler Group, which effectively runs USA*NAFTA, the umbrella organization of U.S. corporations supporting the agreement. Another source is Sandra Masur, director of international trade policy for Eastman Kodak, which has a substantial presence in Mexico. Kodak is deeply involved in the so-called grass-roots effort to promote NAFTA.

Mexico's NAFTA office retained the P.R. firm Burson-Marsteller—which has handled such clients as Shell Chemical Company, Saudi Basic Industries, Salomon Brothers and Bethlehem Steel—to sell the image of a "new Mexico." The flacks at Burson-Marsteller hope to promote Mexico as a modern, industrializing nation with a technically capable work force. As part of the general outreach strategy, SECOFI has hired at least three prominent Hispanic Americans: former State Department Chief of Protocol Abelardo Valdez, former New Mexico Governor Toney Anaya and former Navy Secretary Edward Hidalgo. Von Bertrab's operation even boasts a staff member who handles liaison with U.S. environmental groups and high-tech environmental companies.

Burson-Marsteller, which has been paid almost $5.4 million in fees and expenses since October 1990 by SECOFI, took several other steps to refurbish its client's image. For example, the firm produced thousands of rosy brochures titled "Partners in Trade" and "Protecting the Environment." These brochures were distributed to government agencies, U.S. legislators and numerous pro-NAFTA organizations, including the Heritage Foundation, the U.S. Council of the Mexico-U.S. Business Committee, the U.S. Chamber of Commerce and many others. The Office of the President of Mexico—as opposed to SECOFI—paid Burson over $1.5 million in fees and expenses to create television and newspaper ads that promote Mexico's supposedly tough efforts to combat drug trafficking. For its account on NAFTA, Burson-Marsteller established a speakers bureau, monitored media coverage of the trade issue and produced speeches. Burson has also funneled monthly retainer fees to two lobbying firms working for SECOFI: the Brock Group ($30,000) and Gold and Liebengood ($27,000).



Round and Round the Revolving Door

Playing first violin in Maestro von Bertrab's Washington orchestra is Robert Herzstein, a former U.S. Under Secretary of Commerce in the Carter Administration. Herzstein, a lawyer with the firm of Shearman & Sterling, is the top American adviser to the NAFTA lobbying campaign of the Mexican government. Shearman is the only firm retained by Mexico to do both legal work and lobbying. During the NAFTA negotiations, Herzstein was the lead U.S. counsel to the Mexican negotiating team. Herzstein's colleagues call him "Mr. Mexico."

Herzstein is a poster boy for the Washington revolving door between government and the private sector. After working on trade policy for the government in the late 1970s, in the 1980s he and his firm made hundreds of thousands of dollars as Canada's lead counsel during negotiations of the U.S.-Canada Free Trade Agreement. Since 1991 SECOFI has paid more than $5 million in fees and expenses to Shearman & Sterling for help in negotiating and passing NAFTA, according to documents the firm has filed with the Justice Department under the Foreign Agent Registration Act. What Justice records do not reveal is that Shearman & Sterling has actively tracked members of Congress and their views on NAFTA, targeting those who are on the fence and then lobbying them. For example, this past February 24, one of the firm's representatives attended a private breakfast held by the U.S. Council of the Mexico-U.S. Business Committee at the National Democratic Club to persuade new legislators to support the treaty. It has contacted governors, state and city officials, and state economic development and commerce departments to determine local sentiment toward NAFTA. The firm forwards this intelligence to Mexico's NAFTA office in Washington. Then von Bertrab dispatches one or more of his many lobbyists to work on the appropriate state or local official.

Assisting Herzstein at Shearman & Sterling are longtime lobbyist Anita Epstein and political analyst David Parkhurst. Ironically, Parkhurst served on the presidential campaign of Ross Perot—a prominent opponent of NAFTA—and he was responsible for research and Perot position papers on foreign lobbying reform.

Mexico is not counting solely on Herzstein's influence-peddling acumen. In its pockets are many other high-powered revolving-door lobbyists, including Bill Brock, whom some people in Washington tout as the "father" of NAFTA. In 1982, as U.S. Trade Representative, Brock initiated official talks with Mexico on a bilateral free-trade agreement. Nine years later, as a private consultant on Mexico's payroll, he was helping the Bush Administration enact NAFTA.

His consulting firm, The Brock Group, is a good buy for Mexico. Since 1991, it has been assisting Burson-Marsteller and providing Mexico's NAFTA office what it calls (in documents filed with the Justice Department) "strategic counseling on trade, labor and political policy issues." The Brock Group has been contacting key players on the Hill, in the White House and at federal agencies. Brock personally discussed NAFTA with Senate minority leader Bob Dole and former Representative Donald Pease. The Brock Group is loaded with other former officials with trade experience who are working on the Mexican account: James Frierson, former chief of staff for U.S. Trade Representative Clayton Yeutter, and Otto Reich, former Ambassador to Venezuela. Reich, for one, knows how to skew a public debate. In the mid-1980s, he headed the State Department's Latin American Office of Public Diplomacy, which disseminated disinformation and propaganda to discredit the Sandinistas of Nicaragua and U.S. journalists reporting on the *contra* war.

Brock is one of those Washington eminences whose statements on trade matters receive serious consideration from lawmakers and opinion leaders. But not everyone he speaks to realizes he now has a personal and professional interest in NAFTA. In April 1991 Brock testified before the Senate Finance Committee. He was billed as a former U.S. Trade Representative, a specialist in the often arcane world of trade policy, someone to be heeded. He spoke favorably of a U.S.-Mexican free trade agreement. Mexican officials present must have been pleased to have such a high-profile U.S. trade expert make their case. He earned his paycheck that day. But not everyone in the committee room knew Brock was a hired gun. Brock neglected to mention he was receiving a large sum of money from Burson-Marsteller and the Mexican government at the time.

When asked later about his failure to disclose his financial link to Mexico, Brock maintained that since he had registered as a foreign agent for Mexico, his affiliation was no secret. But Congressional committee staff do not routinely trudge over to the Justice Department to check on the foreign ties of prospective witnesses. The conflicts of interest of witnesses are often not known to the committees that receive their testimony. In this case, nothing in the public record of the hearing revealed that Brock had financial loyalty to Mexico.

The Stroking of Congress

When 122 new members of Congress were elected last November, Mexico's NAFTA team sprang into action—every new legislator was specifically targeted to be contacted by a lobbying firm retained by Mexico. One of these, Walker/Free Associates, took on the Midwesterners. Another, Public Strategies, was assigned to hammer the California and Texas members; Gold and Liebengood, Inc. was assigned the Senate Republicans and TKC International drew the new Hispanic members. These firms are considered to be among the most effective in the business. Charls Walker of Walker/Free Associates, Under Secretary of the Treasury and Deputy Secretary of the Treasury in the Nixon Administration, is one of the most renowned lobbyists in Washington. (His other clients have included Anheuser-Busch, AT&T, CBS Records, Columbia Pictures, Mitsubishi and CSX Corporation.) His associate Phil Potter is also a former Treasury Department official. Walker/Free Associates is handling much of the day-to-day schmoozing on the Hill, monitoring and lobbying new members. It has contacted more than 300 government officials over a two-year period, according to Justice Department records. Walker and his colleagues have contacted staff members of the Senate Finance Committee seventeen times and the House Ways and Means Committee eleven times.

Public Strategies is run by Joe O'Neill, once the top aide to Treasury Secretary Lloyd Bentsen when he was in the Senate. From June 1991 to October 1992, O'Neill's small firm was paid $455,771. For all that money, O'Neill visited a number of legislators to sell them on the wonders of NAFTA. Making the most of his old Bentsen ties, he contacted old friends in the former Senator's office sixteen times and contacted the Senate Finance Committee (on which Bentsen served) twenty-three times. He and his firm pitched NAFTA to Senators Brock Adams and Chuck Robb and Representatives Howard Berman, Bob Matsui, Richard Gephardt and Ron Wyden, among others.

Several Clinton advisers were close to Mexican business interests or friends of NAFTA.

SECOFI paid lobbyists Gold and Liebengood $523,000 in fees from June 1991 to December 1992. Howard Liebengood is a former Senate sergeant-at-arms. Many of his associates working the NAFTA beat are former government officials who have served as staff members in the House, the Senate and the Department of Health and Human Services. Gold and Liebengood contacted members of Congress and their staff nearly 500 times in a year and a half. Mary Latimer, a staffer formerly with Donald Pease and currently with the House Ways and Means Committee, was targeted fifteen times. Representative Jim Kolbe and his staff were contacted twenty-four times. According to Justice Department documents, key Senate Finance and Commerce Committee staff members were plied with "Christmas candy" from the government of Mexico, via Gold and Liebengood.

What was the need for such an army of lobbyists? For one thing, there is strength in numbers: The more lobbyists you can mobilize, the more officials you can see. And each lobbyist has—or likes to boast he or she has—special contacts with certain members of Congress or executive branch officials. Finally, that's the way things are done in this town. Von Bertrab has a simple explanation for Mexico's saturation strategy: "When in Rome, do as the Romans do."

The Selling of the President-Elect

At the start of its pro-NAFTA drive, Mexico was fortunate not to have to worry about the White House. Bush was a solid friend of NAFTA. The punditocracy pronounced him a sure two-termer. But then Bush's hold on the presidency began to weaken. And Mexico was not about to be caught flat-footed.

As Clinton's political fortunes ascended, pro- and anti-NAFTA forces launched intense efforts to win him over. Labor leaders met with Clinton and raised their objections to the treaty; unionists pressed anti-NAFTA position papers on his campaign aides. But they were outgunned by the Mexicans—who were egged on by U.S. lawmakers.

According to von Bertrab, Democratic members of Congress backing NAFTA urged Mexican government officials "to start having some connection with the [Democratic] party and the [Clinton] campaign." Von Bertrab admits he heeded the advice, but he will not say who in the campaign was approached by Mexican government reps. They had a wealth of choices. Several Clinton advisers were close to Mexican business interests or fans of NAFTA. (Some Clintonites were registered foreign agents.) One top adviser was Robert Rubin, who was at the time co-chairman of Goldman, Sachs and Company, the Wall Street investment banking firm. Rubin personally handled several of Goldman, Sachs's most important clients, including the government of Mexico. He would be named by Clinton to chair the National Economic Council. (He has since recused himself from matters involving Mexico.)

During the primaries, candidate Clinton hedged on the North American Free Trade Agreement, but he certainly was no critic. In the summer and early fall, after Ross Perot had infused the campaign with loosely populist soundbites about foreign lobbyists, job losses and cheap overseas labor markets, Clinton turned up the flame of his own rhetoric. Not only was he going to end "politics as usual" in Washington, Clinton would not back NAFTA unless certain concerns about U.S. jobs and the environment were met.

Around this time, Mexico was getting closer and closer to the next President of the United States. In September, *National Journal* reported that the Mexican government had retained O'Melveny and Myers, the law firm of future Secretary of State Warren Christopher, to advise Mexico on technical issues in the NAFTA negotiations, such as antidumping laws and countervailing duties. O'Melveny and Myers did not disclose these activities to the Justice Department.

FULL DISCLOSURE?

The potential abuses of foreign lobbying are no different from those of domestic lobbying. U.S. corporations that lobby the executive branch generally are not required to disclose their activities, but overseas interests must. Still, the disclosure law regarding foreign lobbying—the Foreign Agent Registration Act (FARA)—is weak, and the government office that enforces it keeps shoddy records. The General Accounting Office has been the most vigilant observer of FARA's inadequacies and since 1974 has issued three reports documenting problems with FARA records. The G.A.O. and the Justice Department acknowledge that numerous foreign agents simply do not register. More than half the time, registration statements are filed late, and half those statements have "inadequate disclosure," according to the G.A.O.

Disclosure on Capitol Hill is weak as well. Many lobbyists simply do not register. Members of Congress must disclose their privately funded trips just once a year. Senate staff members must get permission from the Ethics Committee, which then publishes their names in the *Congressional Record*; there is no such requirement in the House. No staffer in the House or Senate earning less than $79,932 in 1993 is required to disclose any information about free travel. These laws need to be tougher and uniform. There is a move afoot in Congress to pass laws compelling more disclosure by lobbyists and their clients. The proposed legislation does not go as far as it should, but it will make it easier for members of the public, journalists included, to track campaigns like the pro-NAFTA onslaught. —C.L. and M.E.

That same month in Little Rock, Bill Clinton received a pro-NAFTA research paper written by two of his longtime friends, Paula Stern and her husband, Paul London. Stern had served on the International Trade Commission in the mid-1980s. She then became an economic consultant to several clients and lobbied her old agency on behalf of Japanese corporations who wanted to bring high-definition television technology to the potentially lucrative U.S. market. Stern had the embarrassing misfortune of seeing her labors exposed on an Emmy award-winning episode of *Frontline*. London, who has represented several overseas clients, including the Japan Society of Industrial Machinery Manufacturers, is currently in line to receive a top Clinton Commerce Department appointment.

These two F.O.B.s had been retained by the U.S. Council of the Mexico-U.S. Business Committee—pro-NAFTA moneyed interests, many of which have operations in Mexico. Not surprisingly, the Stern Group's paper, titled "Investment, Trade and the U.S. Gains in the NAFTA," concluded that the treaty would have positive effects on the U.S. economy. Stern and London optimistically predicted that NAFTA would lead to the creation of 200,000 new U.S. jobs. (A number of economic studies have been published, forecasting everything from employment nirvana for U.S. workers, with thousands of new jobs created, to sheer hell, with millions of jobs lost.) Shortly after Clinton received this report, paid for by pro-NAFTA forces, he announced on October 4 his tentative support of the treaty. While he had some concerns about labor and environmental issues, ultimately the next President would help make NAFTA a reality. The public commitment was made.

Following Clinton's election, the Mexican government made its first direct approach. In November, Mexican President Salinas's Chief of Staff, José Córdoba-Montoya, met in Washington with Clinton transition officials Samuel Berger and Barry Carter. Córdoba-Montoya pressed them to support President Bush's signing of NAFTA, which he did on December 17. Córdoba-Montoya also urged that Clinton commit himself to securing Congress's approval before this summer's recess. On January 9 President Salinas and Clinton met in Texas. The Mexican leader was the only head of state the President-elect met with before moving into the White House.

But that wasn't Mexico's only access to the Clinton government-in-waiting. It must have been reassuring to Mexican officials that several of the country's paid lobbyists served directly on the Clinton transition team. One of them was Gabriel Guerra-Mondragon, a former special assistant to the U.S. Ambassador to Mexico in the 1980s and now president of two Washington-based consulting firms that have received a lot of money from Mexico. In the critical period of October-December 1992, Guerra & Associates received $81,000 from SECOFI to "make contact and meet with United States legislators and other public officials." At the same time, Guerra-

Mondragon was a Clinton transition adviser on national security issues. In addition, his other firm, TKC International, has received $388,376 from SECOFI since August 1991 to lobby members of Congress, as mentioned earlier.

At Treasury, Secretary-designate Lloyd Bentsen brought in his former aide Joe O'Neill, head of the consulting firm Public Strategies, which was retained by Mexico, to assist in the transition. O'Neill interviewed prospective political appointees and helped Bentsen establish his Treasury operations.

After the inauguration, Charlene Barshefsky was nominated to be Deputy U.S. Trade Representative. She has been registered as a foreign agent for firms in Japan, Canada and Mexico. According to Justice Department records, she or her firm represented a broad coalition of Mexican companies pushing for NAFTA. When asked if Barshefsky's background posed any problem, a spokesperson for the office of the U.S. Trade Representative told *The Wall Street Journal*, "I believe it is a distinct advantage [to have] represented both domestic and foreign clients. That kind of well-rounded representation gives you insight." And Clinton nominated Daniel Tarullo, of Shearman & Sterling, as Assistant Secretary of State for Economic and Business Affairs. Tarullo will oversee the department's trade office. He reportedly worked for Mexico in its NAFTA trade negotiations with the United States.

Fly the Friendly Skies

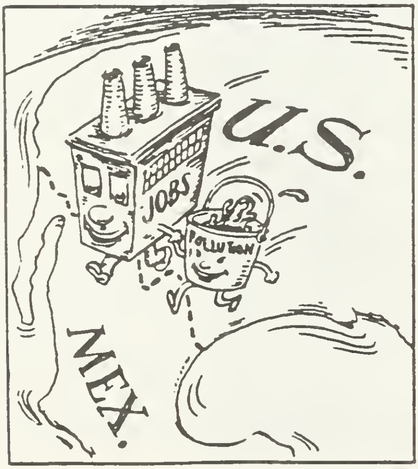
For the past two years, Mexican business interests, working in tandem with their government, have waged an elaborate campaign to "educate" U.S. government officials about the benefits of the proposed North American Free Trade Agreement. Between April 1991 and February 1993, the deep-pockets Mexican group COECE took about fifty Congressional staffers—including Donsia Strong—on nine trips to Mexico. Although the Constitution prohibits members of Congress and their employees from receiving "any present . . . of any kind" from a foreign government without the consent of Congress, such trips apparently do not violate this provision because COECE is ostensibly a nongovernmental organization. However, it does have close ties to the Mexican government and advised it during the NAFTA negotiations. And its executive director, Guillermo Guemez, was formerly the executive vice president of Banco Nacional de Mexico, which until August 1991 was owned by the Mexican government.

So far the House members, the governor and nearly all of the Congressional staffers who have gone to Mexico have not publicly disclosed these activities. (Either they do not have to, or the deadline for disclosure has not yet passed—and, in some cases, won't pass until after Congress has voted on the treaty.) In the Senate, staffers must receive authorization from the Ethics Committee before accepting foreign travel; their names are then published in the *Congressional Record*. So far, fourteen Senate staff aides have disclosed their participation in the trips.

Queries to roughly 200 Congressional aides reveal that forty-eight staff members went to Mexico on COECE's dime. Two of the most powerful committees in the House of Representatives were targeted by COECE. Bruce Wilson and Mary Laumer of the House Ways and Means Subcommittee on Trade journeyed to Mexico. So did Janet Potts, a staffer for John Dingell's House Energy and Commerce Committee.

To beef up its lobbying efforts in Congress, the Mexican business group enlisted the services of Ruth Kurtz, a well-connected former Senate aide and trade expert. Kurtz, hired for $80,000 a year, was a good catch. From 1970 to 1980, she was an international economist and U.S. trade negotiator at the Commerce Department. From 1980 to 1983 she served as a trade adviser to Paula Stern at the International Trade Commission. Then she joined the staff of Republican Senator William Roth, where she was a major author of the 1988 Omnibus Trade Act. Kurtz quit the Senate in 1989 and subsequently signed on with COECE.

Kurtz, who refused to be interviewed, earns her keep by schmoozing with former fellow trade specialists on Capitol Hill, the men and women advising legislators on NAFTA. From April 1991 through October 1992, according to Justice Department records, Kurtz or her principals discussed NAFTA in meetings with legislators on seventeen different occasions. There were two meetings with Senate minority leader Bob Dole. Others on the hit list include then–Senate Finance Committee chairman Lloyd Bentsen and Representatives Kika de la Garza, Bill Richardson and Robert Torricelli. But the real work on Capitol Hill occurs at the staff level, so the Mexican business group and Kurtz presented the merits of NAFTA to various House and Senate staffers on 220 occasions—in telephone conversations, at office meetings, over lunch. They held ten meetings with governors during this period, including two sessions with California Governor Pete Wilson. And they met with officials of the U.S. Trade Representative's office twenty-one times, including twice with Trade Rep Carla Hills. Kurtz's former employers at the Commerce Department heard her pitch on NAFTA nineteen times, including at one meeting with then-Secretary Robert Mosbacher. Nine conversations were held at the International Trade Commission. And the staff of Senator Roth, ranking minority member of the powerful Finance Committee, which has principal jurisdiction over trade matters such as NAFTA, was visited by alumna Kurtz twenty-two times.



Kurtz wined and dined some staffers at Washington's most popular restaurants: the Ritz Carlton, Sequoia, La Colline, Sam & Harry's, Joe & Mo's, Old Ebbitt Grill, the Monocle. Kurtz and her Mexican clients also played Santa Claus. According to Justice Department documents, they bought a "Christmas Gift for [a] Member of Congress" at Saks Fifth Avenue. Another Christmas gift was purchased for a Congressional staffer from Victoria's Secret, the lingerie chain. The recipients of the gifts were not named. (Congress is now considering a bill that will force lobbyists to disclose the recipients of such gifts.) Kurtz also worked the media, spinning positive stories about Mexico and with NAFTA.

Staffers were led by the nose to Mexico to hear its carefully scripted story.

But the centerpiece of Kurtz's campaign to win friends and influence Capitol Hill people was the trips to Mexico. Practically all of the trips were led and organized by Kurtz. Both Democrats and Republicans were invited on these visits. Some of the staffers work for legislators who have already decided their positions on NAFTA, and others work for legislators who are on the fence. One delegation included staffers for lawmakers concerned with Mexico's environmental record. Another brought together staff aides to members who care about Mexico's human rights record. And one tour consisted of staffers from offices that were openly anti-NAFTA.

These trips weren't junkets. Meetings were scheduled back to back. The agenda was loaded, and the visitors were exposed only to the business side of the issue. Very few meetings were held with Mexican anti-NAFTA groups, and these had to be organized independently by the staff members.

Many staffers say the experience made them better understand the importance of NAFTA to Mexico. Some left feeling unsure about NAFTA's environmental and job repercussions in the United States. But several staff aides note that they came home believing that if NAFTA is good for Mexico, it will be good for the United States. Philip Boyle, who was a legislative assistant for former Representative Frank Horton, says that Horton was undecided about NAFTA until Boyle participated in a 1991 COECE trip. Horton was among those who voted for giving President Bush fast-track authority, which allowed Bush to negotiate NAFTA without too much interference from Congress. Some staff people on the Hill report that the trips reinforced their already positive attitudes toward NAFTA. And clearly, the information they brought back made its way to the legislators. For example, Bruce Wilson, staff director of the House Ways and Means Committee's Subcommittee on Trade, says "staff findings" from these trips were shared with Dan Rostenkowski, chairman of the committee, and were made available to other committee members.

After the treaty was signed by Salinas, Bush and Canadian Prime Minister Brian Mulroney in December 1992, COECE shut down its Washington office. According to von Bertrab of Mexico's NAFTA office, the business group's primary purpose was to serve as a liaison between Mexican corporate interests and Mexican government negotiators. After the pact was signed, there was less need for the business-government interaction. But COECE still keeps Kurtz on its payroll—presumably to lobby members for the final ratification of NAFTA. While nations trying to work their way around Washington have occasionally operated through government-connected trade associations, Mexico has taken its persuasion efforts a step further. The trade analysts to the most powerful, relevant members of Congress were systematically led by the nose to Mexico to hear its carefully scripted story.

Big Business Weighs in Big

Corporate Mexico and the Salinas government are not alone in the push for NAFTA. Hundreds of major U.S. companies, eyeing cheap labor, weak regulations and new consumers in Mexico, are crusading for the agreement. Flimsy disclosure laws make it difficult to calculate how much U.S. business interests are spending on pro-NAFTA activities. But the total runs into the millions of dollars.

The most prominent organizations pushing NAFTA are USA*NAFTA, the U.S. Council of the Mexico-U.S. Business Committee, Trade Partnership, the U.S. Chamber of Commerce, the National Foreign Trade Council, the Business Roundtable and the National Association of Manufacturers. USA*NAFTA is the largest. About 80 percent of the coalition members are companies and 20 percent of them are trade associations and what USA*NAFTA euphemistically calls "consumer" groups, with names like Consumers for World Trade, Citizens for a Sound Economy and San Diegans for Free Trade. More than 2,000 plants operating in Mexico are owned by U.S. companies, and many of their parent companies are members of USA*NAFTA. Formed last October by Kay Whitmore, the chairman and C.E.O. of Eastman Kodak, and James Robinson, then head of American Express, USA*NAFTA claims to have raised $2 million. But according to the group, it has not yet spent much of this money. Gail Harrison of the Wexler Group, a well-connected public affairs consulting unit of Hill and Knowlton, manages an extensive grass-roots effort, which in part involves identifying companies in Congressional districts that are pro-NAFTA and enlisting them to bring local pressure to bear upon the relevant representative. USA*NAFTA also hired Mari Maseng Will of Maseng Communications as a media consultant and Chuck Levy of Wilmer, Cutler and Pickering as counsel.

Corporations are spending large amounts of money to get NAFTA ratified.

USA*NAFTA is working with others in a unified network of business leaders and pro-NAFTA associations that its members have dubbed the Alliance. They have been conducting low-profile, behind-the-scenes lobbying. Within the Beltway, the Alliance has made the House of Representatives, where the treaty may be in trouble, its prime target. (NAFTA proponents believe they have a majority in the Senate.)

In this effort to woo the more volatile House, the U.S. Council of the Mexico-U.S. Business Committee, an Alliance member, sponsored a two-day event for new members of Congress, from both parties, at the National Democratic Club in Washington. The council made certain that local pro-NAFTA business leaders were present. At breakfast, lawmakers and their staffers sat surrounded by business people from their home district who praised NAFTA. Congressional NAFTA supporters, including Senator Bill Bradley, the chief Senate supporter of NAFTA, were the keynote speakers at the affair.

USA*NAFTA is building support for NAFTA at the state level. The group uses "state captains" to persuade local officials and business people to rally behind the treaty—and let their elected leaders know where they stand. The state captains are typically officials in companies that are commercially and politically influential within their states: BankAmerica in California; AT&T in Florida; Du Pont in Delaware; General Electric in Massachusetts; General Motors in Michigan; Eastman Kodak in New York; Caterpillar in Illinois.

According to USA*NAFTA's legal counsel, Chuck Levy, the U.S. business community organizations keep their activities separate from those of the Mexican government. But the Mexican NAFTA office communicates regularly with U.S. business groups lobbying for the treaty. As with the Mexican government, U.S. corporations are spending large amounts of money to get NAFTA ratified, and their labors effectively complement Mexico's own extensive lobbying campaign. As von Bertrab says, Mexican officials are "less credible" than U.S. business people when extolling the benefits of NAFTA in the United States. U.S. companies are lobbying for what their officials believe is best for them—and, by extension, for the American people. Their entry into the fray further stacks the deck.

Government by Special Interests?

What has all this expensive hyperactivity wrought? The high-powered, moneyed interests have succeeded in making *their* agenda America's agenda—and even given it an apple pie–sounding name: North American *Free Trade* Agreement. William Greider has written about a sophisticated form of political manipulation he calls "deep lobbying," the purpose of which is to define public argument and debate. "It is another dimension of mock democracy—a system that has all the trappings of free and open political discourse but is shaped and guided at a very deep level by the resources of the most powerful interests."

For years, the logic, the assumptions and the seeming inevitability of NAFTA have been carefully constructed, and the reasonable concerns of environmental, labor, consumer and other groups have been brushed off as annoying but harmless gnats. Except for some token memberships on a few trade advisory committees, these modestly funded forces have been largely ignored by the trade professionals in the three governments, who have been working closely with the various North American corporations. Issues of greatest import to the great majority of people, such as the potential loss of jobs or lowered environmental standards, were treated as afterthoughts to the process. These concerns were given scant attention in the main body of the pact—hence the need for "side agreements" to NAFTA. The whole process has a cynical, cosmetic quality, with the pretense of responsible discourse included after the fact.

As with so many critical issues, the presence of a high-powered lobbying campaign makes it unlikely that decisions are being made on the merits. And that is perhaps the most damaging consequence of an operation like the selling of NAFTA. It undermines confidence in government.

NAFTA is a perfect issue for lobbyists. It is highly technical. The details are arcane. Trade matters are often disposed of far from public scrutiny. Even some members of Congress would rather not deal with them. How could the NAFTA process have evolved any differently, when so many of the former U.S. trade officials have been retained by Mexico or U.S. corporations with subsidiaries there? In such a setting, the right word from the right lobbyist can make a difference.

NAFTA is too important to leave to the lobbyists. The persuasion campaign conducted on its behalf may lead to passage of a treaty that could prove harmful to a vast number of Americans. This lobbying free-for-all is more evidence that the way Washington does business needs to change. Clinton's executive order banning former government officials from going to work for special interests may prevent future revolving-door shenanigans such as those evident in the NAFTA game. The lobbying disclosure bill now before Congress would shine a brighter light on the day-to-day activities of lobbyists in Washington. And some members of Congress are beginning to eschew *all* future privately funded travel by themselves and their staff. Such changes are overdue, but they are only a beginning. For as long as the present system remains in place, the public will rightly wonder whether all they are getting is the best legislation special-interest money can buy. □

NAFTA's Opposition

In the past two years, an unusual anti-NAFTA coalition has emerged. People and organizations that formerly would never speak to one another are meeting on a regular basis. The opposition includes businesses, labor unions, environmental and consumer groups, and Ross Perot. Although the anti-NAFTA forces are substantially outspent by the paid lobbyists and consultants of Mexico and corporate America, their ability to mobilize their members makes them somewhat competitive.

Many NAFTA opponents belong to the Citizens Trade Campaign, a broad coalition of more than seventy national organizations. Its annual budget is a mere $200,000, and it employs only three full-time national staff members and fourteen field staffers. Former Democratic Congressman Jim Jontz of Indiana is the executive director.

The coalition has tried to generate opposition to NAFTA in public rallies and meetings across the nation by emphasizing the prospect of substantial loss of jobs and of international trade tribunals overruling U.S. regulations on workplace safety and the environment. Several unions have played an important role in the anti-NAFTA effort. The United Auto Workers, the International Ladies Garment Workers Union, the International Brotherhood of Electrical Workers, and the Machinists, Teamsters and others have lobbied lawmakers and staged protests, sponsored petition campaigns and organized traveling anti-NAFTA caravans with displays, speakers and videos about worker exploitation in Mexico. The A.F.L.-C.I.O., like the U.S. business community, has taken out advertisements and worked with other groups—such as the nonprofit Congressional Economic Leadership Institute—in organizing trips to Mexico for legislators. A.F.L.-C.I.O. trade analyst Mark Anderson says the federation's opposition to NAFTA is largely unorganized and "a low-budget operation." If the federation fully mobilized its 14 million members, it could influence the NAFTA debate. Recently, however, the executive council decided to push for appropriate side agreements to the pact rather than launch a national campaign to derail it, as many union leaders have urged.

A few business organizations also oppose the treaty. The American Trade Council and the U.S. Business and Industrial Council view NAFTA as a potential threat to small and middle-sized U.S. companies less able to relocate to Mexico than big corporations. They also fear that the free-trade zone will enable overseas companies to use Mexico as an alternative staging area to circumvent U.S. import laws.

Cooperating with the anti-NAFTA business associations is Public Citizen, a Ralph Nader group. Until recently, Public Citizen has had one full-time person on the NAFTA case: Lori Wallach, who directs the trade program at Public Citizen's lobbying arm, Congress Watch. Wallach glories in being a trouble-maker. During the highly secretive NAFTA negotiations in 1991 and 1992, Public Citizen and other opposition forces were locked out and complained that their concerns were not being addressed. No one would provide copies of position papers or other negotiating materials. In February 1992, Public Citizen received a leaked copy of the NAFTA text. It released the document to the public, causing an uproar within the Bush Administration over the breach of security. The office of the U.S. Trade Representative immediately began tagging the NAFTA drafts with a secret code, so any leaked text could be traced back to the culprit. On Capitol Hill, Wallach has lobbied furiously, along with lobbyists from unions and other groups. But the money spent by the anti-NAFTA forces is a mere fraction of Mexican and U.S. corporate lobbying expenditures.

Environmentalists are split on NAFTA. Greenpeace, Friends of the Earth and the Sierra Club are active participants in the Citizens Trade Campaign. Their chief worry is that NAFTA will make it easier for U.S.-based corporations to move their operations to poorer countries with weaker environmental regulations, thereby sidestepping U.S. laws but also jeopardizing the safety and health of indigenous people in less-developed nations. A warning sign came in 1991 when Mexico challenged a U.S. law banning tuna imports from countries that killed more than 20,000 dolphins annually during tuna catches. The Mexicans argued that the law constituted an unfair trade barrier. An international trade panel ruled in favor of Mexico. Some environmentalists envision more such cases should NAFTA be ratified. But recently six large environmental organizations—the National Audubon Society, the Nature Conservancy, the National Wildlife Federation, the Environmental Defense Fund, the World Wildlife Fund and Defenders of Wildlife—announced they would support the treaty, as long as appropriate auxiliary agreements are negotiated.

The anti-NAFTA coalition has one potential wild card: Ross Perot, who has testified twice before Congress against the treaty. His organization, United We Stand, America—with an estimated membership of 1-2 million—is campaigning against the treaty. On May 30, Perot will devote a thirty-minute infomercial on prime-time TV to NAFTA.

Recently, Perot joined other NAFTA opponents for lunch, during which Ralph Nader warned that Mexico and U.S. corporations will "blitz" the network airwaves with TV commercials promoting NAFTA. Perot asked how much the pro-NAFTA forces might spend. Twenty-five million, Nader replied. Perot smiled and said, "I can do that." —C.L. and M.E.

THE PLAYERS

FORMER U.S. GOVERNMENT OFFICIALS WORKING FOR NAFTA'S PASSAGE, 1989-PRESENT,* AS REPORTED TO THE DEPARTMENT OF JUSTICE

Registrant	Current Firm	Former Government Position (Years Served)
Toney Anaya	Independent Lobbyist	• Governor of New Mexico, 1983-87 • Attorney General of New Mexico, 1975-79 • Admin. Asst. to New Mexico Governor Bruce King, 1971-72 • Leg. Counsel for Sen. Joseph Montoya, 1966-69 • Exec. Asst. to the Asst. Sec. of State, 1966
Timothy Bennett	SJS Advanced Strategies	• Deputy Asst., U.S. Trade Rep. for Mexico, 1985-88 • U.S. Trade Attaché to the E.E.C., U.S. Trade Rep., 1981-85 • Exec. Dir., U.S. Generalized System of Preferences, U.S.T.R., 1980-81
John Bode	Olsson, Frank, and Weeda	• Asst. Sec. for Food and Consumer Services, U.S. Dept. of Agriculture, 1985-89
William Brock	The Brock Group	• Sec. of Labor, 1985-87 • U.S. Trade Rep., 1981-85 • Chairman, Republican Nat'l Comm., 1977-81 • Sen., 1970-76 • Member, U.S. House of Reps., 1962-70
Doral Cooper	Crowell & Moring International	• Asst. U.S. Trade Rep., Office of Bilateral and Multilateral Affairs, 1981-85 • Deputy Asst. Special Trade Rep. for Japan and Developing Countries, 1978-81 • Economist and Exec. Dir. of the Generalized System of Preferences • Prog. U.S.T.R., 1977-78 • Economist for Int'l Finance and Trade Matters, Council of Econ. Advisers, 1975-77
Peter Ehrenhaft	Bryan Cave	• Deputy Asst. Sec. and Special Counsel (Tariff Affairs), Dept. of the Treasury, 1977-79
James Free	Walker/Free Associates	• Cong. Liaison to the White House (Carter Admin.)
James Frierson	The Brock Group	• Coord., U.S. government's policy on the functioning of the GATT system in the Uruguay Round, 1987-89 • Chief of Staff, Off. of the U.S. Trade Rep., 1985-89 • Special Asst. to Amb. William Brock, U.S. Trade Rep., 1981-85
Lee Fuller	Walker/Free Associates	• Majority Staff Dir. under Sen. Lloyd Bentsen, Sen. Comm. on Environment and Public Works, 1985-87 • Minority Staff Dir., Sen. Comm. on Environ. and Pub. Works, 1978-85
Peter Glavas	Gold and Liebengood	• Special Asst. to Sen. David Boren, 1987-88 • Tax Counsel, Sen. Boren, 1984-88 • Chief of Staff, Sen. Boren, 1984-86 • Campaign Mgr. and Field Rep., Oklahomans for Boren, 1980-84
Martin Gold	Gold and Liebengood	• Legal Counsel for Sen. Howard Baker, 1981-82 • Counsel for Floor Operators to Baker, 1979-80 • Min. Staff Dir. and Counsel, Sen. Comm. on Rules & Administration, 1977-79 • Staff, Sen. Intell. Comm., 1976 • Legal Asst. to Sen. Mark Hatfield, 1973-76
Gabriel Guerra Mondragon	Guerra & Associates TKC International	• Adviser on Nat. Security issues, Clinton transition team, 1992-93 • Special Asst. to the U.S. Amb. to Mexico, 1980-83
Robert Herzstein	Shearman & Sterling	• Under Sec. for Int'l Trade, Dept. of Commerce, 1980-81
Edward Hidalgo	Independent Lobbyist	• Sec. of the Navy, 1979-81 • Asst. Sec. of the Navy, 1977-79 • Gen. Counsel and Cong. Liaison, U.S. Information Agency, 1973-76 • Special Asst. to Director of the U.S. Information Agency, 1972 • Special Asst. to the Sec. of the Navy, 1945-46, 1965-66
William Hildenbrand	Gold and Liebengood	• Sec. of the Senate, 1980-84 • Sec. for the Min., U.S. Senate, 1974-80 • Chief of Staff, Sen. High Scott, 1969-74 • Leg. Asst. to Sen. Caleb Boggs, 1961-68 • Asst. Cong. Liaison, Dept. of Health, Education & Welfare, 1959-60 • Aide to Rep. H.G. Haskell, 1957-58
Patricia Jarvis	Gold and Liebengood	• Special Asst., Off. of Leg., Dept. of Health and Human Services, 1986-87
Ruth Kurtz	Independent Lobbyist	• Aide to Sen. William Roth, mid-1980s (left in 1989) • Trade Adviser, Int'l Trade Comm., 1980-83 • Int'l Economist and U.S. Trade Neg., Dept. of Commerce, 1970-1980

Registrant	Current Firm	Former Government Position (Years served)
Stephen Lande	Manchester Trade	• Assistant U.S. Trade Rep. for Bilateral Affairs (left 1982) • Office of the Special Trade Rep., including Deputy Asst. U.S.T.R., 1973-82 • State Dept., Chief of Econ. and Info. Services, U.S. Embassy, Luxembourg, 1970-73 • State Dept., Consular Off., Athens, Greece, 1966-68
Howard Liebengood	Gold and Liebengood	• Sergeant-at-Arms, U.S. Senate, 1981-84 • Leg. Counsel to Sen. Min. Leader, 1977-81 • Min. Staff Dir., Sen. Select Comm. on Intell., 1976-77 • Consultant to Sen. Howard Baker, 1975-76 • Asst. Min. Counsel, Watergate, 1973-74
George Manning	O'Connor & Hannan	• Chief Min. Counsel, House Merchant Marine and Fisheries Comm., 1983-85 • Min. Counsel, House Subcomm. on Fisheries, Wildlife, Conservation and the Environment, 1975-83 • Leg. Asst. to Rep. Edwin B. Forsythe, 1972-75 • Admin. Aide to Rep. Gilbert Gude, 1971-72
Mary Lou McCormick	formerly of Gold and Liebengood	• Press Asst., Deputy Press Sec., and Press Sec. to Sen. Bob Packwood, 1981-87
Joseph O'Neill	Public Strategies	• Admin. Asst. to Sen. Lloyd Bentsen, 1980-84 • Exec. Asst. to Sen. Bentsen's Texas office, 1972-79
Phil Potter	Walker/Free Associates	• Aide to Sen. Peter Dominick, 1969-70 • Senior positions, Dept. of Treasury, 1970-71
William Ratchford	Gold and Liebengood	• Member, House of Reps., 1979-85
Otto Reich	The Brock Group	• Amb. to Venezuela, 1986-89 • Special Adviser to the Sec. of State, Interagency Office of Pub. Diplomacy for Latin America and the Caribbean, 1983-86 • Asst. Admin., U.S. Agency for Int'l Devel. Progs. on Latin America and the Caribbean, 1981-83 • Staff Asst., House of Reps., 1970-71
Mark Robertson	Gold and Liebengood	• Leg. Dir. for Rep. Stan Parris, 1980s
John Scruggs	Gold and Liebengood	• Asst. Sec. for Legislation, Dept. of Health and Human Services, 1983-84 • Special Asst. to the Pres. for Leg. Affairs, 1981-82 • Floor Asst. to House Republican Whip Trent Lott, 1980-81 • Staff Member of the House Rules Comm., late 1970s
Peter Slone	Gold and Liebengood	• Deputy, Nat'l Campaign Mgr., Mondale for President, 1984 • U.S. House Approps. Comm. Assoc. Staff, and Cong. Liaison to the House Educ. and Labor Comm. and Select Comm. on Aging, office of Rep. William Ratchford, 1978-83
James Smith	Walker/Free Associates	• U.S. Compt. of the Currency, 1973-76 • Deputy Under Sec., Treasury Dept., and Dir., Off. of Cong. Relations, Treasury Dept., 1969-73 • Min. Counsel to the Sen. Subcomm. on Intergovt'l Rel., 1960-62 • Leg. Asst., Sen. Karl Mundt, 1957-60
Michael Smith	SJS Advanced Strategies	• Deputy U.S. Trade Rep., 1980-88 • U.S. Amb. to GATT, Geneva, 1979-83 • Chief, U.S. Textile Negotiator, 1975-1979 • Deputy Chief, then Chief, Fibers and Textile Div., U.S. State Dept., 1973-74 • Chief of Pres. Corres. for the White House, 1970-73 • Foreign Service, various positions, including Foreign Service Off., 1958-70
David Tarullo	Shearman & Sterling	• Nominated to be Asst. Sec. for Econ. and Bus. Aff., State Dept., 3/19/93; not confirmed as of press time • Chief Employ. Counsel of the Sen. Comm. on Labor and Human Resources, 1987-89 • Exec. Asst. to the Under Sec., Dept. of Commerce (Int'l Counsel), 1980-81
Abelardo Valdez	Independent Lobbyist	• Amb., Chief of Protocol, State Dept., 1979-81 • Asst. Admin. for Latin America & the Caribbean, U.S. Agency for Int'l Devel., 1977-79
Charls Walker	Walker/Free Associates	• Deputy Sec. of the Treasury, 1972-73 • Under Sec. of the Treasury, 1969-72 • Asst. to the Sec. of the Treasury, 1959-61

** Chart reflects those who have lobbied or done other pro-NAFTA or trade-related work.*

PREPARED STATEMENT OF CURT ROHLAND

Mr. Chairman, I am pleased to testify on the important issue of agriculture and the North American Free Trade Agreement (NAFTA). I am the President of the National Family Farm Coalition (NFFC) representing 39 family farm and rural organizations spanning 32 states. I am struggling to maintain my family run dairy operation in Withee, Wisconsin.

Today's media and political message that NAFTA is good for the U.S. economy is certainly missing the mark. Whether from an environmental, consumer, labor, or farmer perspective the current NAFTA text and the supplemental agreements are devastating. Agriculture was totally ignored during the supplemental agreement process. The two-page description of the "early-warning" system and the commission as part of the "import-surge" agreement fail to develop solutions as to what will be very immediate consequences for both dairy policy and broader impacts on the rural economy.

I speak as a farmer and a resident of a struggling rural community—one that is trying to maintain its education system, its infrastructure and its rural economy. When USDA and other economists calculate who wins and who loses under the NAFTA and the General Agreement on Tariffs and Trades (GATT) they seem to forget that there are people, jobs, and livelihoods behind the commodity export numbers. Last week, both USTR Ambassador Mickey Kantor and USDA Secretary Espy claimed that increased exports would result both in higher farm income and the creation of more jobs. The figure of 56,000 new jobs in the farm and food related industries sounds like quite a few jobs—but not when compared to the hundreds of thousands of on-farm jobs and rural manufacturing jobs that will be lost as a direct consequence of the implementation of the NAFTA agreement. I question both of these assertions based on the experiences in my region of the country and across rural communities during the past decade.

Our failed feed grain policy is being exported to Mexico with the outspoken support of corporate agri-business. It is clear that they care more about the *volume* of exports, not by whom and how the product is grown. We assert that NAFTA is a direct extension of the Reagan/Bush agricultural and economic policies: increased concentration of land and production, continuing lower world commodity prices, lower food safety standards and the elimination of a country's capacity to determine its own agricultural programs and manage its own food supply

The NAFTA will displace farmers and their rural economic base in Mexico and the United States. Since the Canadian government opted out of the agriculture section of NAFTA, Canadian farmers have a short-term reprieve on the future of their successful domestic supply management programs for dairy, poultry, and eggs. If a GATT agreement based on the Dunkel text is approved, it would end their programs as well. Those at greatest stake. in this country are the producers of the commodities that have a sensible and workable farm program that is based on a producer contracting with the government to limit production in return for a stable price from the consumer.

EXPORTS AND NET FARM INCOME

Supporters of NAFTA hinge their entire argument on the premise that the agreement will create jobs through increased exports to Mexico. For evidence, NAFTA supporters point out that after the Mexican government reduced its trade barriers in the mid 1980's, U.S. exports to Mexico improved. The improvements in our trade surplus in 1991 and 1992 has been reversed in 1993 where it is falling and less than 50% of the level compared to last year. NAFTA supporters and the Administration contend the trade agreement will create 200,000 jobs. Claims range from this as a minimum or a maximum, despite many other economic studies claiming far lower increases. This is predicated on the jobs "multiplier" concept which holds that a figure of net jobs increases can be calculated based on the size of the U.S. trade surplus with Mexico.

Administration predictions of 56,000 new agricultural related jobs resulting from a NAFTA are insignificant but are even less likely to reflect reality when one realizes that it is totally based on the success of trickle-down economics in Mexico. These predictions are based on increasing Mexican consumer demand for our agricultural products.

This export-driven emphasis prevails within the agriculture and agribusiness community favoring NAFTA. Increased exports are seen as a panacea which will allow U.S. agriculture to survive and prosper into the 21st century. This line of thought pervades much of USDA and has fostered policies encouraging farmers to plant from fence row to fence row and get bigger or get out. This year's low Acreage Reduction Program (ARP) levels are just one more indicator of this policy direction.

A thorough examination of NAFTA's effects upon the agricultural community must take into account farmers' forced dependence on off-farm jobs since their on-farm income as calculated by USDA hovers under $6,000. Until farmers are able to make a decent living from working their farms, they will require a stable and expanding source of employment within their communities. The other side of this problem is the extent to which communities are dependent upon a healthy agriculture sector for farm-related employment. Farming and farm-related industries provided 23.2 million jobs in 1989 (Majchrowicz and Salsgiver, 1993) and most farmers dependent upon off-farm income are employed within these industries. If NAFTA has a detrimental effect upon agriculture, or the industries that farmers work in, there will be devastating effects on rural communities.

Industries which farmers are most dependent on for off-farm income include: agriculture wholesale and retail trade establishments; agricultural input industries (i.e. chemicals, machinery and equipment, etc.); agricultural processing and marketing; and indirect agribusiness such as prefabricated metal buildings and textile products.

We fear that the NAFTA agreement will accelerate the pace at which certain industries are investing in, or relocating to Mexico. These labor intensive industries may shift to Mexico as well as much of the remaining manufacturing sector that provides comparatively high wages and steady income for families in both rural and metropolitan regions.

Through the elimination of domestic price supports and import restrictions, NAFTA will force large numbers of farmers in all three countries to switch to different crops, leading to oversupply in some commodities, falling prices, and disrupted markets for the traditional producers of the alternative crops. Additional problems may arise from import substitution, in which a country replaces its domestic consumption of a product such as sugar or beef with cheap imports and exports its domestic production to the U.S.

Farmers who produce peanuts, dairy, sugar, cotton, beef, fruits and vegetables will lose under NAFTA. NAFTA's real winners are multinational agribusinesses which benefit from increased access to low cost commodities, and increased capacity to establish contract growing and processing operations in Mexico for export.

NAFTA guts the Meat Import Act and Section 22 for the U.S. as well as the remaining protection for Mexico's most important domestic crop, corn, through the elimination of import restrictions. It supports tariffication of domestic support programs. It works toward the harmonization of sanitary and phytosanitary standards with those established by Codex Alimentarius and other international standards setting organizations with standards lower than those in the U.S., thus increasing the risk to the U.S. food supply. Under NAFTA rules of origin, it would be difficult, if not impossible, for consumers to distinguish foods produced under more strict standards from those produced under weak standards.

There is already a campaign to entice large corporate dairy operations from the U.S. to cross the border. There are promises of reduced production costs—whether labor costs, food safety, land costs or avoidance of U.S. environmental provisions.

For poultry and hog producers, the integrators now use Mexico as a threat to impose their low-return contracts. NAFTA could pose a serious threat to U.S. consumer confidence. Recent cases of tainted meat imports from Canada and beef infected with bovine tuberculosis from Mexico underscore this risk. Unless the government is prepared to dramatically increase its budget for border inspections, U.S. consumers will face declining quality and safety in the marketplace, perhaps resulting in reduced meat consumption. Reliable country of origin labeling of beef is virtually impossible, thus making it difficult to determine whether beef imported from NAFTA countries originates there or whether it comes from other regions, such as Central America.

Commodities such as dairy, peanuts and cotton, which are now protected from imports by Section 22, will become vulnerable as Section 22 protections are converted to tariffs and phased out. NAFTA allows Canada to import peanuts from anywhere and then re-ship them processed as peanut butter to the United States without limit or duties. Mexico will be granted immediate access to the U.S. peanut market, with all import controls eliminated in 15 years.

SUGAR: NAFTA offers Mexico the potential of unlimited access to the U.S. sugar market in six years if it can become a net sugar exporter for two consecutive years. Sugarbeet growers in the upper midwest and western states may have to stop planting or cut back on acreage devoted to sugar. Studies on the impacts of shifting sugar land into potatoes, wheat and other crops indicate that there would be a sharp rise in production and much lower prices.

SANITARY/PHYTOSANITARY PROVISIONS

NAFTA minimizes the real impacts of the downward harmonization of food safety standards while developing the very mechanisms by which it will occur. NAFTA allows states and nations to have higher standards. However, if challenged, these must be defended on scientific grounds and be shown to be without intent to restrict trade. Many laws, including pesticide regulation at the state level, may be vulnerable because they were enacted to protect the environment, not animal, human or plant health, which are the only categories in NAFTA for which environmental laws are defensible.

In other cases where health provisions have been enacted with the intent of preventing harm where the effects of a chemical or process are unknown, such as the proposed moratorium on the use of Bovine Growth Hormone, there may be insufficient scientific evidence to justify maintaining the standard under the NAFTA as currently negotiated.

AGRICULTURE AND THE ACCESSION CLAUSE

NAFTA's biggest agricultural impact may reside in the Accession Clause, which allows any country or group of countries to accede to the NAFTA if they comply with the conditions imposed for admittance. Little or no research has been done on the implications of liberalized agricultural trade with these other countries.

Argentina and Brazil are the hemisphere's lowest cost producers of wheat and beef; New Zealand has lower dairy prices than the U.S. and Brazil could easily dominate the frozen orange juice market. While we contend that U.S. dairy farmers will see no positive impact from liberalized trade with Mexico, the unrestricted imports of dairy products from countries like New Zealand could seriously damage U.S. dairy producers. In addition, the use of BGH in dairy cow production in Mexico would further erode consumer confidence in our milk supply unless there were efforts to ensure that dairy imports would not be allowed.

MEXICAN BASIC GRAINS: Mexican basic grain farmers will suffer disproportionately under NAFTA as they lose their supported corn price. These farmers will be forced to compete with the cheaper U.S. grain and other foreign suppliers due to our export-driven low loan rate corn policy. Large scale displacement of Mexican farmers, estimated at anywhere from 800,000 to 3,000,000 families, will result in increased migration to the U.S. with social problems created on both sides of the border. Credit access is threatened due to restrictions on land mortgages and exorbitant interest rates. Farm labor wages in the U.S. will be pushed downward as the number of workers increases while sources of employment decline, especially in sugar beets and fruits and vegetables facing competition with Mexico. Enforcement of labor rights for migrant workers will become even more difficult.

CONCLUSION

We appreciate you holding this hearing to better investigate the potential impacts of NAFTA. This NAFTA, based on the Dunkel text of the General Agreement on Tariffs and Trade, will eliminate the most effective farm programs in North America.

We will lose the only programs that have established supply management and reasonable prices for farmers if Section 22 provisions are converted to tariffs that will ultimately be eliminated. Canada has a short-term reprieve in NAFTA but will lose it under the Dunkel text. Mexican farmers will suffer the most, as NAFTA, coupled with changes to the Mexican land tenure system, places an unprecedented burden on family farmers to enter the global food economy at a serious disadvantage.

Again, I thank you for this opportunity to testify. I will be happy to answer any questions.

PREPARED STATEMENT OF SENATOR WILLIAM V. ROTH, JR.

[September 15, 1993]

Thank you Mr. Chairman. I have not made a decision on whether I will support or oppose the North American Free Trade Agreement and its three side accords on labor, the environment and import surges. I come to this hearing with an open mind on the entire NAFTA package. It is a very complex package, with enormous and wide-ranging implications for the United States; consequently, I will not be quick to draw a conclusion on it.

One thing is clear—the number one issue is economic growth and jobs. I, for one, must be convinced that NAFTA will be good for the workforce and economy of the state of Delaware and the nation in order to support the agreement. So far, many in my home state, at least based on what I have been hearing from my constituents, do not believe that is the case.

Notwithstanding this point of view, the Administration has released studies that show that NAFTA will result in a net job gain for the United States. According to the USTR, in my state of Delaware the over 450% growth in our exports to Mexico since 1987 has created new jobs and a total of 12,400 manufacturing jobs in Delaware are tied to exports to our two North American trading partners, Mexico and Canada. One question I have is just how reliable are these state statistics?

Nevertheless, future gains from NAFTA will not be evenly spread and some workers will likely lose their jobs. I have, since the beginning of the NAFTA negotiations, been most concerned about this segment of the workforce. All along, I have called for the potential beneficiaries of freer trade to shoulder some of the responsibility for helping those who may be hurt by accepting a temporary, de minimus border fee.

Unfortunately, both the Administration and the private sector opposed such an idea and now the Administration is in the midst of proposing a new worker adjustment program and has yet to explain how to pay for it.

In addition to proposing a suggested funding mechanism to cover any new worker adjustment costs related to NAFTA, I have also proposed specific changes to our Trade Adjustment Assistance (TAA) program to ensure that any worker who may be hurt from a production shift to Mexico is fully eligible for TAA benefits. The existing program does not currently cover such workers. Any implementing legislation must address this critical issue.

PREPARED STATEMENT OF SENATOR WILLIAM V. ROTH, JR.

[September 21, 1993]

Thank you Mr. Chairman. Last week this Committee held its first hearing on the completed NAFTA package. My statement last week emphasized two basic points. First was that the NAFTA and its side accords have enormous and wide-ranging implications for the United States and I will not be quick to draw a conclusion on it. My second, and more important, point was that the number one issue is economic growth and jobs.

Today's hearing will focus on this critical issue, but unfortunately, as with much of the debate on NAFTA, the two witnesses will likely present starkly different pictures of what NAFTA means for the workforce of this nation.

This difference in viewpoint is reflected back home as well. While the agreement is strongly supported by many industries in Delaware, the workers don't seem to share that perspective. Just this past weekend, in a front page article on NAFTA in Delaware's *News Journal,* it was reported that that there is great worry that NAFTA will lead to job loss at two of the largest employers in Delaware—Chrysler and Dupont. Moreover, there is great concern over what will happen to the workers at the GM plant, which is now slated to close in 1996. One question I have for Secretary Reich is how do you, as a supporter of NAFTA, convince all of these workers that NAFTA is in their best interest?

Another issue I certainly hope will be addressed at today's hearing is just exactly what the Administration proposes to do on the potential job dislocation that may be NAFTA-related and how will it be paid for? The Administration has undertaken an ambitious effort to create a comprehensive worker adjustment program, which in some ways appears to build on the efforts of the previous Administration. And while I am a big proponent of "reinventing" our government to perform smarter and better, I am concerned, however, that such a program will not be ready in time to accompany NAFTA.

I also have a been a longstanding advocate of our Trade Adjustment Assistance program for trade-impacted workers and will need to be convinced that any new overall worker adjustment program meets the needs of trade-impacted workers. NAFTA has raised a new concern in this regard, namely, workers who may be hurt by production shifts to Mexico. Shortly after the NAFTA talks were launched in 1991, I and the now Chairman of this committee introduced legislation to ensure that our TAA program would cover such workers. Whatever NAFTA-related worker adjustment program we devise must help these workers. The legislation I introduced also provided a mechanism for paying for any new worker adjustment program; namely, a de minimus border fee.

Thank you.

PREPARED STATEMENT OF LORI M. WALLACH

Thank you for inviting me to testify about the North American Free Trade Agreement (NAFTA.) and its environmental, conservation, and consumer health and safety implications. My name is Lori Wallach. I am the director of Public Citizen's Trade Program. Public Citizen is a consumer and environmental advocacy group founded in 1971 by Ralph Nader. Ensuring international trade agreements promote citizen values such as environmental and consumer protection, democratic decision-making and corporate accountability has become one of Public Citizen's top policy concerns.

I am joined in my written testimony by the Sierra Club, The Humane Society of the United States, the Public Interest Research Group (PIRG) and Clean Water Action. These groups are among the many whose analysis of the NAFTA and side agreement texts and the border documents has concluded that this NAFTA package could well result in an North American environmental, health and safety situation that is worse than the status quo[1].

This committee is doing the American public a service by having this hearing on NAFTA. NAFTA will have broad impacts on the U.S. economy, employment conditions, public health and safety and the environment. NAFTA also implicates the continued validity of such policies on the federal, state and local level, as well as the means by which such policies will be set in the future.

I. INTRODUCTION

In March 1993 as the supplemental NAFTA negotiations were about to begin, twenty five national environmental, conservation and consumer groups delivered a consensus position letter to the Clinton Administration that outlined 11 areas in which **environmental, health or safety problems would result if the NAFTA text signed by President Bush in December 1992 were approved.**

Additionally, the consensus letter noted two areas in which failure to take action would exacerbate existing problems in the face of the increased economic activity expected to result from NAFTA, including the need to develop a new funding source for environmental cleanup and future protection.

Many provisions of the 2000 page NAFTA text will directly impact the environment, health and safety as well as existing and future laws in these areas. Unfortunately, many of NAFTA's rules which affect natural resource conservation, toxics regulation, food safety, animal welfare, energy policy, procurement and more conflict with existing environmental, health and safety policies. NAFTA also establishes a tribunal system that allows one NAFTA country to challenge the federal, state and local laws of another country that conflict with NAFTA's rules. Such challenges are heard by panels of five trade officials. If a U.S. law would be found to conflict with NAFTA, that law can no longer be applied to imports or alternatively, the U.S. can pay "fines" (trade sanction) to keep such a law. The combination of NAFTA rules that conflict with current U.S environmental and consumer policies and this challenge mechanism made it critical that NAFTA's textual problems were addressed in the supplemental negotiations. However, none of the textual issues even made it onto the supplemental negotiating table, much less into the resulting side agreement.

Moreover, the two issues on which NAFTA was silent -- border environmental funding and clean-up mechanisms -- were not dealt with satisfactorily in the supplemental negotiations.

Having analyzed the environmental side agreement and border documents and having reviewed the NAFTA text and our earlier testimony, we have come to the conclusion that ultimately, the North American environment and the health and safety of the citizens of North America would be worse off with the passage of this NAFTA.

This NAFTA is worse than the status quo because:

o Many of NAFTA's provisions which conflict with, or otherwise undermine, existing U.S. federal and state environmental, conservation and health and safety laws did not even make it onto the supplemental negotiating table for repair. Thus, existing U.S. federal, state and local environmental laws are exposed to challenge as illegal trade barriers under NAFTA;

o The environmental side agreement contains no provisions to counter these serious textual problems. The environmental side agreement boils down to the establishment of a Commission whose main function is discussion, study and cooperation on the North American environment. The Commission also has a limited review capacity which after a tortuous and lengthy procedure could result in fines for repeated failure to effectively enforce a narrow category of existing environmental laws. The ineffectiveness of the Commission was best described by top Mexican trade negotiator Jaime Serra Puche to the Mexican Congress on August 19, 1993: "**In an apparent attempt to address concerns about national sovereignty and the amount of fines that may accrue to Mexico under the agreement, Mr. Serra Puche emphasized the limited scope of the trilateral commissions' powers, and the lengthy and complex process needed to reach and implement enforcement recommendations. 'The time frame of the process makes it very improbable that the stage of sanction could be reached,' he said;**[2]" and

o While NAFTA is expected to generate significant additional economic activity and linked environmental costs along the U.S.-Mexico border and in the Mexican interior, the NAFTA package will not provide for any mechanism to generate new money (ie. money not reliant on the U.S. budget process) to address these needs. Thus, not only will funding not be guaranteed to clean up the existing mess, but as well the NAFTA package will contain no funding mechanism to guarantee funding for the new environmental burdens that NAFTA's investment liberalization will generate.

Taking these problems together, approval of this NAFTA could worsen the status quo. Thus, this NAFTA should be rejected to make way for a better NAFTA that the new Administration could negotiate.

An agreement between our countries could be negotiated that would be an improvement on the status quo if we are not afraid of change. Many who support this NAFTA say that a better NAFTA is not possible because the other NAFTA countries would not be willing to reengage in negotiations. There is no evidence to support this supposition. In fact, both countries face national elections in the upcoming year, and in both countries the leading opposition parties have called for renegotiation of this NAFTA. Certainly if the governments do not change, the current negotiators would not refuse to work onward; if this is the case, then the many issues left for further negotiation in numerous NAFTA provisions and in the side deals would also be imperiled.

In this testimony, we will:

o outline the 11 issues raised in the environmental, conservation and consumer groups' consensus letter that did not get onto the side agreement negotiating table;

o explain why these problems cannot be addressed in enabling legislation;

o describe problems concerning the legal status of the "side" agreements;

o describe how the one issue addressed -- enforcement of existing domestic environmental laws -- resulted in a Commission on environmental cooperation with extremely limited powers and unworkably long and complex procedures; and

o highlight several inaccuracies in the Administration's official summary of the side deals in comparison to what is in the actual text.

II. THE SIDE AGREEMENT DOES NOT ADDRESS NAFTA'S FUNDAMENTAL ENVIRONMENTAL AND CONSUMER FLAWS

In short, the environmental supplemental agreement does not begin to remedy NAFTA's many fundamental flaws concerning the environment, conservation, and consumer health and safety. In making this statement, we base our judgement not only on our past analysis of NAFTA's flaws, but also on President Clinton's own criteria for a "good" North American Trade Agreement.

In October 1992, then-Candidate Clinton stated his NAFTA policy[3]. He said that the NAFTA negotiated by President Bush would not be a good deal for most Americans without additions and repairs. Candidate Clinton listed thirteen items he felt needed further work. Attached to my testimony is a chart that lists the problems in the Bush NAFTA from President Clinton's NAFTA policy statement. The chart also shows which of these issues were addressed, and to what degree.

Public Citizen and our 70-plus labor, environmental, consumer, religious, civil rights, farm and other colleague organizations in the national Citizens Trade Campaign had been opponents of the Bush NAFTA. On the basis of President Clinton's NAFTA speech, many of us realigned our position to be NAFTA critics, hoping President Clinton would make the major fixes to NAFTA that were necessary.

Sadly, the chart shows that the vast majority of President Clinton's list of NAFTA flaws never even made it onto the negotiating table. Thus, vital issues such as guaranteeing food safety, protecting domestic environmental and consumer laws from trade challenge, maintaining U.S. manufacturing jobs and wage levels, safeguarding U.S. family farmers, ensuring highway safety and increased democratic accountability and citizens participation that Clinton cited in his speech were simply not addressed. President Clinton's issues did not include all of those we felt were vitally in need of attention in additional NAFTA talks; the full list was contained in the consensus document noted above. Please also find attached to this testimony a scorecard showing the results of the supplemental negotiation compared to that consensus position.

At the core of our NAFTA concerns are the numerous provisions in the agreement that directly conflict with, or otherwise undermine, existing domestic and international environmental, conservation, animal welfare or consumer health and safety measures. NAFTA's first chapter reiterates the general principles of "free" trade set forth in the global General Agreement to Tariffs and Trade to which all three NAFTA countries are members. Most simply, NAFTA reiterates that no country may quantitatively or qualitatively limit trade going in or out of a country unless NAFTA specifically allows for a limitation.

Many of NAFTA's pages list such exceptions. Many environmental and consumer laws use access to the U.S. market or limitations on exports as an enforcement mechanism -- for instance not allowing import of food that does not meet U.S. pesticide or inspection standards, or of fish caught with drift nets, or not allowing export of raw unprocessed logs from the Pacific Northwest. NAFTA does not provide exceptions to allow for restriction based on such values.

In other chapters, NAFTA sets forth rules for trade in natural resources, energy, agricultural products and more that conflict with current U.S. environmental and conservation policies. As well, NAFTA sets forth rules that will promote certain patterns of investment in North America, mainly creating incentives for capital to shift from the United States and Canada to Mexico where environmental regulation is lesser. This shift would promote greater commercially-caused environmental degradation, while putting companies remaining in the U.S. and complying with U.S. standards at a competitive disadvantage.

Following are the issues brought to the attention of the Clinton Administration beginning in early March 1993 before supplemental negotiations began which were not included in the negotiations:

A. NAFTA Could Adversely Impact U.S. Consumer and Environmental Laws Based on Product Standards

NAFTA contains two chapters that specify when consumer health and safety and environmental standards can limit imports of food, other goods and services. Many U.S. federal, state and local consumer laws limit access to the U.S. market. For instance, the U.S. prohibits import of food containing dangerous pesticides, unsafe products containing toxic substances or unsafely constructed, and provision of services such as transportation that are unsafe.

NAFTA's two chapters on standards, Sanitary and Phytosanitary Standards (SPS) for food and Technical Barriers to Trade (TBT) for all other standards measures, contain ambiguous and contradictory terms that expose legitimate environmental and consumer laws to trade challenge. The ambiguity of these terms caused both the groups now supporting NAFTA, and those now opposed to NAFTA, to ask for clarifications of certain key terms in the supplemental negotiations. Because such terms were not clarified, their interpretation would be left to the trade experts staffing NAFTA Chapter 20 dispute resolution panels in the case of a challenge of a U.S. environmental or consumer law.

The NAFTA chapters allow domestic standards that are the same as specific international standards referenced in the NAFTA to stop importation of food, other products and services. However, limitations on imports based on federal, state or local standards that are more protective of health or safety than the international standards can be challenged in NAFTA dispute resolution as illegal trade barriers. Such stronger domestic standards must pass a series of tests about how a given level of protection was set, and what measures are used to accomplish such levels[4]. Some important U.S. environmental and consumer protections could well run afoul of such requirements. Successfully challenged laws can no longer be enforced against imports, or the U.S. would face trade sanctions as a "payoff" to keep the food or products that do not meet our standards out.

As well the standards provisions may be interpreted as generally encouraging "harmonization" of standards towards generally lower international standards. NAFTA puts into place numerous committees with broad policy jurisdiction, and establishes detailed procedures for "conformity assessment" and other harmonization mechanisms. Standards-setting is a matter for local, state and federal democratic bodies, and should be subject to trade disciplines only where a law is facially discriminatory.

Despite serious reservations about the standards language expressed by the consumer and environmental communities, none of these issues even made it onto the negotiating table. We find this especially disconcerting because Administration officials' main response to our concerns was that all NAFTA parties had an understanding of the standards sections that would protect consumer laws. If that were the case, we have argued that this issue would have been easily cleared up in the supplemental negotiations by simply memorializing such common understandings. These standards issues cannot be addressed in any domestic fora such as through the enabling legislation or through agency white papers. This is the case because such domestic provisions (for instance definitions of ambiguous words) have no legal effect in NAFTA dispute resolution in the case of a trade challenge.

B. NAFTA Could Adversely Impact Environmental, Conservation and Animal Protection Laws Based on Process Standards.[5]

As well, NAFTA does not allow a country to limit access to its market on the basis of standards regulating the process under which a good is manufactured or harvested. Many key U.S. wildlife, conservation and animal welfare laws are based on such distinctions.[6] Some environmental laws relating to food also are based on process distinctions. For instance, a ban on ozone-depleting post-harvest fumigants that leave no residues on food (thus creating no physical distinction) will soon be in effect. If challenged, such laws could be held to violate NAFTA. The side agreements do not protect such federal and state laws.

The 1991 GATT panel ruling on the Marine Mammal Protection Act is a good example of the peril such laws face if challenged under NAFTA. In that decision, a GATT panel held that the United States may not distinguish between two cans of tuna whose physical characteristics are identical (called "like products" in trade terminology) but which were harvested in different manners, i.e., one was harvested using a technique called encirclement netting that kills large numbers of dolphins.

C. NAFTA Could Adversely Impact State and Local Laws

Although states are not legal parties to NAFTA, the legal prohibitions in NAFTA apply equally to state, local and federal laws. A state law which is inconsistent with NAFTA's rules could be challenged in NAFTA Chapter 20 dispute resolution as easily as a federal law. In the case of a successful challenge, the U.S. federal government is obligated pursuant to NAFTA Article 105 to "take all necessary measures...to give effect...to this Agreement, including their observance...by state and provincial governments." GATT jurisprudence on federal government obligations for subfederal government compliance to trade terms requires federal governments to employ all constitutionally permissible means to encourage compliance by States. Under U.S. law, this could include preemptive legislation, suits for compliance, or even withdrawal of federal benefits.[7]

Thus, although technically speaking NAFTA does not itself "preempt" state and local law because it does not automatically override such laws, NAFTA requires that the federal government use its powers to get rid of state and local laws ruled by NAFTA to be inconsistent with NAFTA's rules. Nothing in the environmental side agreement exempts state and local laws from NAFTA's legal requirements. Thus, state laws which restrict pesticide use, require recycling, promote export bans on raw logs, or protect the marine environment in a manner that is prohibited by NAFTA, if challenged, would be at risk under NAFTA. Failure to eliminate such laws would result in trade penalties against the United States.

D. Public Participation Lacking in NAFTA's Dispute Resolution Procedures

NAFTA Chapter 20 provides for dispute resolution mechanisms allowing one country to challenge another's laws as inconsistent with NAFTA's rules. Chapter 20 provides for five person panels of trade experts to decide such challenges in secret. Citizens are provided no direct access to this process, nor to its documents or transcripts. Nothing in the supplemental Environmental Agreement improves the undemocratic nature of NAFTA dispute settlement in the case of challenges of U.S. environmental, conservation or consumer laws.

Moreover, the text of the Supplemental Environmental Agreement specifically provides that all disputes involving environmental laws caused by NAFTA provisions must be resolved under NAFTA's Chapter 20 dispute procedures, not in the supplemental agreement's dispute resolution process. Thus, any improvements in participation or transparency established in the Supplemental Environmental Agreement regarding dispute settlement would not apply to the cases in which environmental regulations are challenged as trade barriers. Unfortunately, this is not a great loss, because much of the same secrecy and lack of public participation existing in NAFTA's dispute resolution mechanism is replicated in the dispute procedures in the Supplemental Environmental Agreement.

E. NAFTA's Investment Rules Could Encourage Environmental Destruction

NAFTA opens many new areas to investment for U.S. capital, including several highly environmentally sensitive areas such as energy, agriculture, and mineral extraction. As well, NAFTA's rules include provisions for speedy reimbursement for expropriated foreign capital and other safeguards to increase corporate confidence so as to promote investment in these news areas, as well as greater investment in manufacturing. This new access and investment security will intensify the draw of Mexico's low-wage, high-skill workforce and it comes without any binding environmental, worker safety or other regulation. Thus, the NAFTA encourages U.S. companies to relocate to Mexico to save on production costs. However, by guaranteeing these companies equal access to the lucrative U.S. consumer market as their U.S.- based competitors, the NAFTA puts U.S. companies following environmental and other social rules at a competitive disadvantage for staying in the United States and doing the right thing by following U.S. laws.

This problem was recognized in the NAFTA in nonbinding provisions in the investment chapter urging countries not to lower their environmental standards to attract investment. Unfortunately, those NAFTA provisions are not legally binding (the operative verb in the provision being "should" not "shall.") Rather than remedy these ineffective NAFTA provisions, the side agreement focusses on the related, but narrow, problem of poor environmental enforcement of existing environmental standards, implicitly by Mexico. By focusing on the highly visible problems of enforcement in the U.S.- Mexico border region, the side agreement fails to address the much greater problem of NAFTA generally establishing incentives against environmentally sound business behavior.

F. NAFTA Could Encourage Unsustainable Natural Resource and Energy Practices[8]

Under NAFTA's rules, and with few exceptions, NAFTA countries must provide the others with the same access to its natural resources that it allows its own citizens and domestic industry.[9]

Nor can governments discriminate against foreign companies or markets by imposing export taxes or other charges[10]. Moreover, under the proportionality clauses of NAFTA, foreign access to a share (determined by past practice) of natural resources is guaranteed for as long as the resources last, regardless of domestic shortages.[11]

Not only are these problems entirely ignored by the side agreement, but a last minute revision actually buttresses the destructive resource policies written into the NAFTA text by preventing the newly established North American Environmental Commission from providing a forum for complaints about the environmental impacts of unsustainable resource policies. By narrowly defining "environment" to exclude natural resource management, the side deals prevent the Commission from ever considering poor or destructive resources policies no matter how harmful they may be to the environment.

G. NAFTA Discourages Green Procurement

The side agreement ignores the constraint NAFTA will impose on government procurement policies. NAFTA Chapter 10 forbids use of technical or performance specifications as a condition for procurement[12], if their effect may be to favor local suppliers or industry. Yet public purchasing policies have often been used by governments to stimulate local initiative and innovation in the areas of energy efficiency, recycling and clean technology. NAFTA severely curtails the ability of governments to continue such practices, thus indirectly undermining U.S. companies' ability to keep pace in the global market for environmentally sound technologies and products.

H. NAFTA's Agriculture Provisions Undermine Family Farms

Last October, President Clinton made the express assurance that he would address NAFTA's potential for destroying the family farm. Despite this commitment, the side pact is entirely silent on the issues of agricultural production and trade. NAFTA promotes a vision of a world in which the food production is highly specialized and food trade carried on globally. The implications of this scenario for food security of nations and the viability of agricultural communities are disastrous. Equally discouraging are the impacts of these policies on efforts to make agricultural production less chemical and energy dependent.

I. NAFTA May Undermine Existing International Environmental Agreements

At present, only three multilateral environmental agreements are given some limited measure of protection under NAFTA[13]: CITIES, the Montreal Protocol, and the Basel Convention. NAFTA parties must possess the ability to implement and enforce any international agreement by imposing trade restrictions, if such restrictions are an effective way to secure complete compliance with the agreement in question. NAFTA's limitation on such action was the reason that the three international agreements were listed as protected under NAFTA. Therefore, we urged that all present and future international environmental, health, safety, animal welfare or conservation agreements, to which any NAFTA party is a signatory, should have been given protection from NAFTA challenge. As well, we urged that the protection of domestic measures to implement such agreements not be subject to the constraint established under NAFTA that they be only the least trade restrictive measure. These problems were not addressed in the side agreement.

J. Funding: No Mechanisms for "New" Funding Established

As this Committee is only too well aware, under the budget agreement, money must be found for NAFTA's environmental, labor and other costs in advance of a vote for final passage, either by cutting other programs or by raising taxes.[14] Thus, considering the budget situation and the size of these costs, environmental and labor groups urged that some mechanism be created in the supplemental negotiations to generate new dollars, such as through a small, temporary cross-border tax. Neither this approach, nor any other mechanism to generate such new funds, was established.

The border environmental funding plan that was negotiated between the United States and Mexico is a bank mechanism for leveraging capital contributed by the governments, mostly from the United States. Under this plan, the U.S. must come up with about $100 million per year for the next five years. This plan would only generate funds for water and sewage treatment, and not toxic cleanup, air pollution abatement, additional inspection or enforcement, or conservation.

How much would border environmental clean up and infrastructure cost? The Mexico-U.S. Business Committee of the Council of the America's published an estimate that border infrastructure would cost $6.5 billion over ten years. The Sierra Club completed an analysis this summer that concluded that infrastructure and environmental clean-up would cost $21 billion over ten years. Sierra Club's study is rather conservative in its assumptions. However, it is clearly more reliable than the Council of the America's study because that study ignores such critical components of environmental protection as hazardous waste clean-up, air pollution control, habitat conservation and paving to reduce road dust.

Estimates of the cost of worker adjustment assistance also total in the billions per year. As well, the Congressional Budget Office has estimated that NAFTA tariff withdrawals will cost about $2.5 billion over the next five years. Thus assuming Sierra Club's conservative figure, only $1 billion per year for worker adjustment and training, and the tariff reduction revenue losses, NAFTA would cost minimally $18.5 billion over the next five years.

K. "Necessary" Test and Other Problematic NAFTA Language

Like many other NAFTA provisions, NAFTA Chapter 21's exceptions incorporate GATT terminology and jurisprudence. Recent GATT panel decisions have given specific meaning to trade terms of art, such as the term "necessary," that are threatening to U.S. environmental and consumer protection. Most simply, to meet the requirement of being necessary, an environmental or conservation measure must be the "least trade restrictive" option, even if such an option may not be politically or practically possible. This is only one example of the trade terms in NAFTA with dangerous GATT interpretations that we asked to be clarified, for instance by providing agreed-upon NAFTA definitions for such terms. The side agreement fails to deal with these clarifications.

III. THE PROBLEMS WITH NAFTA CANNOT BE REMEDIED IN THE IMPLEMENTING LEGISLATION.

Many of NAFTA's proponents claim that whatever problems could arise domestically because of NAFTA, including the many that were not addressed in the environmental side agreement, could be "fixed" in the implementing legislation. Although undoubtedly some issues can be partially addressed in the implementing legislation, the vast majority of environmental, conservation, and consumer health and safety concerns simply cannot be resolved in that manner.

Regardless of what the United States provides in its domestic enabling legislation, the United States can not prohibit our trading partners from bringing a trade claim against one of our laws within the trilateral NAFTA framework. The United States has no ability once agreeing to NAFTA's terms to prohibit a NAFTA tribunal from determining that a U.S. law is a violation of NAFTA's legal rules. Once such a determination is made, the United States will be required under NAFTA's rules to stop enforcing the law against imports or to "pay" perpetual trade sanctions to maintain the law.

Some have suggested that the U.S. implementing legislation could restrict U.S. agencies from complying with such NAFTA rulings. However, if the United States would ignore a ruling and refuse to change its law, it would still be required to pay trade penalties to maintain its law. Moreover, any such provision in U.S. implementing legislation may itself be considered a violation of U.S. NAFTA obligations. Article 27 of the Vienna Convention on the Law of Treaties provides that, "a party may not invoke the provisions of its internal law as justification for its failure to perform a treaty." In addition, Article 31 of that Treaty provides that a party shall abide by its treaty obligations in "good faith". Forbidding implementation of an adverse ruling in our authorizing legislation would not be considered an action in good faith and would be a direct affront to the notion of U.S. commitment to its international obligations. The only real remedy to this problems is to ensure that NAFTA's rules do not imperil our domestic laws in the first place.

IV. AMBIGUOUS LEGAL STATUS OF THE SIDE AGREEMENT

Before addressing the contents of the side agreement, I will briefly discuss its legal status. First, the two side agreements are written as free standing international agreements between the United States, Mexico and Canada. They are not legally part of the actual NAFTA; the connection is political. The date upon which the side agreements would go into effect is linked to NAFTA's effective date, thus making these legally independent agreements reliant on this NAFTA's approval. However, withdrawal from one of the side agreements or failure to comply with any of their terms do not result in any action regarding NAFTA -- such as termination of NAFTA benefits or expulsion from NAFTA. This latter point is important because the lack of connection to NAFTA was the main criticism of a similar side bar environmental commission the Bush Administration had proposed as a means to mute environmental opposition to NAFTA.

The side agreement's legal independence raises issues as to whether and how the side agreements must be approved. To the extent that the side agreements do not require any changes to existing U.S. law, they may fall into the legal category of international executive agreements which can be entered into by the executive branch alone. The United States is currently party to two such agreements with Mexico which are considered highly ineffectual -- the La Paz Agreement and the Inter Boundary Waters Commission. Thus, inclusion of the side agreements in the NAFTA enabling legislation may be more a matter of politics than legal necessity.

Finally, application of the side agreements to Canada is limited by the necessity for the Canadian provinces to accept the side deals[15]. This is necessary because under the Canadian constitution, the provinces have control of large areas of environmental law. Provinces accepting must represent a set majority-plus percentage of Canada's Gross Domestic Product (GDP). Already several of Canada's most wealthy and populated provinces that are opposed to NAFTA have suggested that they will not accept the side deals, including Ontario, British Columbia and Saskatchewan.

V. THE NORTH AMERICAN ENVIRONMENTAL COMMISSION DOES NOT REMEDY NAFTA'S ENVIRONMENTAL PROBLEMS

The one issue that the Administration attempted to address in the supplemental negotiations was that of enforcement of domestic laws. That issue was addressed through establishment of a North American environmental commission. The establishment of the North American Commission on Environmental Cooperation is a historical first step in connecting trade and environmental policy. However, the Commission has distracted attention from the bulk of real environmental and consumer problems created by NAFTA, which the Commission does not in any way remedy.

As well, we have serious reservations about the structure and scope of the specific Commission established in the environmental side agreement. The Commission's main role is to facilitate study and cooperation on the North American environment. It also has a narrow review process limited to patterns of nonenforcement of certain types of domestic environmental laws. The review process has unworkably long and complicated procedures, and does not allow for meaningful public participation. However, the more difficult it is to apply sanctions for lax enforcement of environmental law, the more likely it is that such lax practices will not be improved.

A. The Commission's Main Role is Discussion

The Agreement establishes no new enforceable obligations for the Parties with respect to conservation of natural resources, pollution prevention or abatement, the elimination or control of toxics, public or worker health and safety nor public access to information regarding the environment.[16] Instead, the Commission's primary mandate is to research and prepare reports on topics approved in advance by the NAFTA governments[17], as well as to facilitate intergovernmental consultations and cooperation on the environment[18].

The side agreement contains pages of hortatory text on environmental goals and many unenforceable promises concerning each countries provision of domestic environmental protections and citizen involvement in domestic environmental policy[19]. While these are laudable goals, failure to act on these promises is not actionable under the agreement; ignoring such promises cannot result in an enforcement review under the side agreement, much less fines or sanctions because such enforcement reviews are limited to nonenforcement of existing domestic environmental law.

B. The Commission's Scope and Goals are Narrow; its Structure Limiting

The Commission is structured so that a Counsel consisting of top environmental officials from each NAFTA country control the agenda and budget for the Commission[20]. The Counsel is staffed by a Secretariat whose work plans and requested budget must be approved in advance by the Council members[21]. A Public Advisory committee is established which would have no right to participate in Commission business (but may be called upon by the Council or Secretariat) or to see most Commission documents[22]. This structure calls into question the Commission's independence and thus, its effectiveness in pushing to better enforce the laws of the very governments who fund and control it. While ultimate control of the Commission by the member governments probably could not have been avoided, the absence of avenues for meaningful public participation in important Commission activities (see below) makes the lack of independence especially problematic.

The Agreement fails to treat environmental concerns as regional or global problems[23]. The terms of the Agreement limit obligations to the territorial jurisdiction of the individual Party[24]. Ironically, the question of whether a country may protect resources outside its territorial jurisdiction has been at the center of the trade and environment debate, including the successful 1991 Mexican trade challenge of the Marine Mammal Protection Act noted above.

Moreover, we are concerned that the Supplemental Environmental Agreement requires the Commission to "avoid the creation of trade distortions or new trade barriers.[25]" This language could be construed to require the Commission to advocate environmental solutions which are "least trade restrictive", regardless of whether such solutions are the most satisfactory from an environmental perspective. This requirement could make the side agreement constrict environmental policy to suit the trade agenda, the very pressure this agreement was designed to defend against.

Lastly, as described in more detail below, the Commission has a narrow review procedure for repeated patterns of nonenforcement of some environmental laws[26]. While the concept of a review mechanism was the most promising aspect of the proposed Commission, the narrow scope and unworkable procedures of the actual review process make it ineffectual.

C. Most Health, Safety, and Conservation Laws Are Excluded from Review; Review Procedures Are Unworkably Complicated and Long.

Two types of review are established in the side agreement. Informal review consists of factual studies of issues that result in reports that can be made public only on the approval of two thirds of the NAFTA countries[27]. Under limited circumstances, citizens in the NAFTA countries can petition for this informal review.

Formal review, which is available for fewer issues than informal review, only can be initiated by a NAFTA country, and can only proceed on approval of two thirds of the NAFTA countries.[28] The formal review process is lengthy and includes numerous steps each requiring two thirds approval to proceed. At the end of formal review, a NAFTA country can be required to begin enforcing a law that it has been shown to have repeatedly not enforced[29]. After a lengthy time period (470 days after initiation of a formal review if all time lines are met), countries failing to comply can be fined[30] -- not more than $20 million in the first year and not more than .007 percent of its North American trade thereafter[31]. If such fines are not paid within a set time period, trade sanctions only to the $20 million or .007 percent amount could be levied against Mexico and the United States[32]. Such failure to pay could be taken to Canadian courts which could order compliance or penalties.

priorities.[34] The breadth of the exceptions for not taking action devours the notion of enforcement. If an official or agency deciding within its discretion not to act is not a failure of effective enforcement then what is? Moreover, what is a "bona fide" decision to allocate resources in a fashion that allows some laws not to be enforced?

c. PERSISTENT PATTERN Only a persistent pattern of such nonenforcement is reviewable. The Environmental Agreement's definition of "persistent pattern" will make that requirement difficult to meet. Under the Agreement, "[p]ersistant pattern means a sustained or recurring course of action or inaction beginning after the date of entry into force of this Agreement.[35]" This definition is extremely vague as to the length of time such behavior must be sustained or how many repetitions equals recurring, thus opening a defense that this requirement has not been satisfactorily met.

3. ONLY A LIMITED CATEGORY OF LAWS WILL QUALIFY FOR REVIEW: Only repeated nonenforcement of laws concerning "the prevention, abatement or control of the release, discharge, or emission of pollutants or environmental contaminants; the control of environmentally hazardous or toxic chemicals, substances, materials, and wastes, and the dissemination of information related thereto; and the protection of wild flora or fauna, including endangered species, their habitat, and specially protected natural areas, in the Party's territory[36]", other than worker health and safety can be reviewed.

Thus, the numerous laws regarding the conservation of natural resources such as timber, water, oil, gas, and minerals are excluded from any review. Similarly excluded are environmental effects of NAFTA's many pages of investment rules that will shape agricultural and manufacturing investment decisions with major environmental implications. As well, the language regarding flora and fauna provides only for laws for their protection, but not their conservation and only within a Party's territory. There is an additional provision that clarifies the limited conservation coverage to: "not include any domestic statute or regulation or provision... the primary purpose of which is managing the commercial harvest or exploitation, or subsistence or aboriginal harvest of natural resources.[37]" Thus, the majority of conservation laws pertaining to management of species and pertaining to all creatures of the seas and migratory species outside national jurisdiction are not included.

Finally, only laws whose "primary purpose is the protection of the environment, or the prevention of a danger to human life or health ..." can qualify[38]. Thus, laws with mixed environmental and other purposes could be disqualified from an enforcement review.

Following, is a summary of the key problems with the review process:

1. ONLY THE GOVERNMENTS CAN INITIATE: Only a very limited category of repeated violations of narrowly defined existing domestic environmental laws with trade effects can qualify for formal review by the Commission. Only such problems raised by the Parties, not those brought to the attention of the Commission by private persons or nongovernmental organization, can ever be considered for formal review. Issues raised by citizens can only be studied through an informal fact finding process and only if such public submissions meet a long list of qualifications and are approved for study by two of the three NAFTA Parties.

2. ONLY REPEATED PATTERNS OF FAILURE TO EFFECTIVELY ENFORCE DOMESTIC LAWS CAN BE REVIEWED The Supplemental Environmental Agreement specifically states the narrow category of issues that can receive formal review. What must be shown is a "persistent pattern of failure ... to effectively enforce its environmental law relat[ing] to a situation involving workplaces, firms, companies, or sectors that produce good or provide services: traded between the Parties; or that compete with goods produced and services provided by another Party.[33]"

a. EXISTING DOMESTIC LAW Only the repeated failure to effectively enforce existing domestic law is in any way reviewable. Thus, major environmental problems caused by the lack of regulation are not reviewable. This is an important point, because, for instance, Mexican law on toxic substances includes no provisions for clean up or community right to know, and other matters that are clearly problems under the status quo. Under this narrow definition, continued Mexican tolerance of U.S. companies dumping toxic wastes in ways that save those companies large sums of money, but destroy public health and the environment, are not actionable.

b. FAILURE TO EFFECTIVELY ENFORCE Additionally, only a failure to "effectively enforce" a law is actionable. The Agreement allows that "A Party has not failed to effectively enforce its environmental law ... where the action or inaction in question by an agency or officials of that Party reflects a reasonable exercise of their discretion...; or results from bona fide decisions to allocate resources to enforcement of other environmental matters determined to have higher

4. TWO THIRDS VOTES REQUIRED THROUGHOUT THE PROCESS TO PROCEED: 470 DAYS BEFORE FINES COULD BE ASSESSED

At numerous occasions throughout the long Commission process, a two thirds vote of the NAFTA countries are required to proceed. To even establish a panel for formal review, a two thirds vote is required[39]. To make informal Council recommendations on enforcement disputes public, a two thirds vote is required, and so forth[40]. Thus, at several key moments, the Commission's operations can be permanently halted if a country being formally challenged or informally reviewed convinces the non-involved country to join forces against an initiating country.

Moreover, there are so many steps and the time limitations for each are so generous, that 470 days would pass from an initial complaint by a Party before fines could be assessed in formal review, assuming all time limits were met[41].

D. The Supplemental Environmental Agreement Lacks a Mechanism for Meaningful Public Participation

The Commission provide for scant opportunities for public participation in its proceedings -- especially with regard to the formal dispute process. While a public advisory committee is established, important documents remain secret, even to the advisory committee, unless approved for release by a two thirds vote of the NAFTA countries.

General pronouncements in the side agreement providing for public participation are strictly controlled and limited under other provisions of the agreement. For instance, in preparing reports for the Council, the Secretariat "may" but is not required, to accept submissions from the Public Advisory Committee, interested parties or NGOs[42]. Moreover, such reports by the Secretariat will only be made public 60 days after submission to the Council. This release is subject to a veto by the Commission, by consensus[43].

Similarly, in preparing factual reports on submissions relating to nonenforcement reviews, the secretariat "may" consider information from NGOs and private citizens[44]. Drafts of such factual records are submitted to the Council for comment as to factual accuracy[45]. The public has no such right to comment on a draft. Once final, the factual record will only be made available to the public if two of the three countries allow. Such a disclosure should occur "normally, within 60 days following receipt[46]"

The same lack of openness pertains to the ability of private individuals or NGOs to present submissions about nonenforcement of environmental laws. Despite claims to the contrary, the supplemental agreement text shows that public submissions can result only in informal reviews. They cannot rigger an formal review that could end in fines or sanctions.

E. The Agreement Fails to Provide for Adequate Access to Information for Investigations

Under the Agreement, the Commission is to work only with "publicly available" information[47]. The NAFTA Parties have very limited obligations to make information available to the Council or Secretariat. The side agreement provides only that a Party, "subject to its applicable law," shall provide the requested information and that it shall take "all reasonable steps" to make other information available[48] If a Party does not make information available when requested, it must simply provide a written explanation to the Secretariat[49]. No further consequence or obligations arises for that Party.

VI. INACCURACIES IN THE ADMINISTRATION SIDE DEAL SUMMARY

The office of the United States Trade Representative released an official summary of the side agreement text on August 13, 1993 one month before the actual supplemental agreement text was released. To set the record straight, we note that several claims the trade office made about the side deal were not reflected in the actual agreement's text.

A. The Side Agreement in No Way Forbids Countries from Lowering their Environmental Standards

USTR Mickey Kantor, in a press conference on August 13, 1993, stated that the Environmental Side Agreement absolutely precluded any country from lowering its environmental standards. Not only is there no such provision in the Agreement, but the constitutionality and enforceability of such a provision would be highly questionable.

B. The Side Agreement Does Nothing to Repair NAFTA's Detrimental Impact on State and Local Law

NAFTA allows state and local laws which do not meet NAFTA requirements to be challenged as illegal trade barriers before secret tribunals of five trade officials under NAFTA's Chapter 20 dispute resolution mechanisms. If a NAFTA tribunal rules a state or local law is in conflict with NAFTA rules, the U.S. federal government must take all steps possible under the constitution including preemptive legislation, suits for compliance and withdrawal of any federal government benefits supporting the NAFTA-illegal practice.

Nothing in the environmental side agreement reverses this unacceptable situation, which would put state pesticide, recycling, raw log ban and many other environmental, conservation and health measures at risk. The official summary released by the United States Trade Representative's Office contains misleading information on this point. The summary states as if answering charges that state laws were at risk, that states may maintain laws that are more protective than U.S. federal law. This is true, but it is irrelevant to NAFTA's state law threat. The problem NAFTA causes state and local law exists when that law is more protective than international, not U.S. federal standards.

C. Formal Environmental Review Leading to Fines or Sanctions Can Only Be Initiated By the NAFTA Countries, not Private Parties.

A point "blurred" in the official government summary that NAFTA supporters have obscured and the press regularly has gotten wrong -- only the countries can initiate the formal review which could result in fines or trade sanctions. Citizens and nongovernmental groups can only trigger informal review resulting in the production of a study if approved by 2/3s of the NAFTA governments.

VII. CONCLUSION: CONGRESS SHOULD REJECT THIS NAFTA

As is described in this testimony, the environmental side agreement simply does not address most of the fundamental flaws in NAFTA listed both by President Clinton during his campaign and by many of the national environmental, consumer, conservation and other citizen groups concerned with NAFTA. These fundamental NAFTA flaws could undermine existing environmental, heath and safety laws and cost U.S. jobs by promoting relocation to Mexico to avoid U.S. environmental and worker safety costs. The one issue of enforcement of existing domestic environmental laws that the side agreement does address has not been addressed in a meaningful fashion. Thus, unfortunately, the NAFTA that will come before Congress this fall is unacceptable from a consumer health and safety and environmental perspective. It is a bad deal for most Americans. Public Citizen respectfully urges Congress to reject this NAFTA.

ENDNOTES

[1] Environmental and conservation groups opposing NAFTA include several of the nation's largest membership groups such as Greenpeace, The Humane Society of the United States, the Sierra Club, the ASPCA, and 23 other national environmental and conservation groups, as well as 300 state and local groups. The combined memberships of these groups is about 8 million nationwide. Moreover, many of these groups focus on grassroots activism, with offices, staff organizers and volunteer activists across the country campaigning for a Congressional no vote on this NAFTA. For instance, Greenpeace and Clean Water Action have large door to door canvass operations. Clean Water Action is active in 29 states and will complete 1.5 million visits on NAFTA. Greenpeace is active in 18 U.S. cities and has been reaching over 20,000 doors a week. Other groups have campaign offices throughout the country.

[2] Journal of Commerce, August 20, 1993.

[3] Speech of Presidential Candidate Bill Clinton, Raleigh, North Carolina, October 4, 1992.

[4] In many provisions of the standards texts, a protection seems to be provided that is then limited by reference to other provisions of the standards chapters. For instance, in an often misrepresented section of the Sanitary and Phytosanitary standards, the text provides that a country may choose any level of protection "in accordance with" other provisions of the chapter. (NAFTA 712-2) This provision is often quoted by NAFTA supporters with the "in accordance" phrase left off as proof of NAFTA's environmental and consumer tolerance. However, the other provisions referenced in the "in accordance" clause effectively undermine a country's ability to choose any level of protection, by requiring that such decisions are made using certain procedures.

[5] This section of the analysis is provided courtesy of the Humane Society of the United States.

[6] Some of the conservation and animal welfare laws at risk are: the Marine Mammal Protection Act, the High Seas Driftnet Fisheries Enforcement Act, the Sea Turtle Act, the Wild Bird Conservation Act, the Humane Slaughter Act, the African Elephant Conservation Act and the Lacey Act. Each of these laws regulates the way in which a product is produced. Such process standards are presumptively a "technical barrier to trade," and thus not permissible according to GATT. Article 903 of NAFTA incorporates by reference the GATT doctrine on this issue.

[7] GATT Panel Decision on Canadian Challenge of Certain U.S. Alcohol Regulations, February 7, 1992.

[8] The next two sections of the analysis provided courtesy of Greenpeace, USA.

[9] NAFTA Article 603 for energy and NAFTA Article 309 for all other natural resources.

[10] NAFTA Articles 604 and 315.

[11] NAFTA Articles 605 and 316.

[12] NAFTA Article 1007.

[13] NAFTA Article 104 provides that countries may take the least trade restrictive domestic measures to enforce those three agreements and that such measures would be protected even if they conflicted with NAFTA's rules. Besides not including many international environmental agreements, this provision puts domestic measures at risk of challenge if they cannot be shown to be the least trade restrictive method to enforce an international agreement.

[14] As noted by EPA Commission Browner on September 14, 1993, the budget did include $230 million for FY 1994 for interagency border clean up. However, this request does not begin to meet the funding needs and is only for building waste water treatment plants that were necessary regardless of NAFTA. (Testimony of EPA Commissioner Carol Browner before the Ways and Means Committee, September 14, 1993.)

[15] Supplemental Environmental Agreement, Annex 41.

[16] Id. at Article 2.

[17] Id. at Article 13.

[18] Id. at Article 2.

[19] Id. at Articles 6 and 7.

[20] Id. at Article 10.

[21] Id. at Article 11.

[22] Id. at Article 16.

[23] Id. at Article 1-a.

[24] Id. at Article 45 (defining "environmental law" limited to measures operating within a Parties territory.)

[25] Id. at Article 1-e.

[26] Id. at Article 24.

[27] Id. at Article 15 (2/3s vote requirement is at Article 15-7.)

[28] Id. at Article 24.

[29] Id. at Article 33-34.

[30] Id. at Article 34-5-b.

[31] Id. at Annex 34 (amounts of fines.)

[32] Id. at Article 36.

[33] Id. at Article 24.

[34] Id. at Article 45.

[35] Id. at Article 45.

[36] Id. at Article 45.

[37] Id. at Article 45.

[38] Id. at Article 45.

[39] Id. at Article 24.

[40] Id. at Article 23-4.

[41] This number is derived from adding up the time limits for formal arbitral reviews provided in Part 5 of the Supplemental Environmental Agreement.

[42] Supplemental Environmental Agreement, Article 13-2.

[43] Id. at 13-3.

[44] Id. at Article 15-4.

[45] Id. at 15-5.

[46] Id. at Article 15-7.

[47] Id. at Article 15.

[48] Id. at Article 21.

[49] Id. at Article 21-3.

NAFTA
Supplemental Scorecard

By Clinton's Own Standard, Side Pacts Announced 8/13/93 Do Not Measure Up

It's the Same Bad Bush NAFTA

What Clinton Said Must Be Fixed In a 10/92 NAFTA Policy Statement	"Fixed"	Included In Negotiation But...	Never Even Reached the Negotiating Table
Shield domestic environmental and consumer laws from challenges			X
Safeguard U.S. manufacturing jobs and wage levels			X
Guarantee the safety of imported foods			X
Secure border environmental clean up, infrastructure build up		X A border infrastructure bank is created which would lend money for water and sewage treatment projects. The U.S. will pay in 55% of the bank's capital-- about $100 million for 5 years. Funding is not provided for worker adjustment and assistance or cleanup of toxic sites. Only $3 billion is generated. Sierra Club estimates a minimum of $20 billion is necessary just for the environment.	X
Establish worker adjustment assistance & retraining for those injured by NAFTA			X
Create new $ for worker retraining, environmental cleanup, border infrastructure			X
Assure NAFTA is good for American family farmers			X
Open NAFTA to "citizen participation"			X No changes to open NAFTA. Commission studies are only available to the public if 2/3 of the countries agree. Commissions' so-called public advisory boards have no real role.

Repair energy chapter to allow continuation of energy conservation programs based on differential taxation, subsidies for alternative energy development			X
Provide Public Participation, Transparency and democratic accountability in NAFTA			X In fact, the U.S. agreed on 7/22/93 to close any dispute proceedings of enviro/labor commission panels
Safeguard natural resource and wildlife conservation; sustainable development policies			X
Allow government procurement rules to mandate green technologies, recycling as bid requirement			X
Promote sustainable agriculture practices			X

Prepared by Public Citizen, a consumer group founded by Ralph Nader.

For more information please contact Lori Wallach, (202) 546-4996
215 Pennsylvania Ave., S.E. Washington, D.C. 20003

NAFTA
Supplemental Scorecard

Side Pacts Do Not Meet Environmental Community Requirements to "Fix" NAFTA

It's the Same Bad Bush NAFTA

What 3/4/93 Environmental/Consumer Group Consensus Position Called For (Repair Omissions and Textual Problems; add Enforcement, Funding)	"Fixed"	Included in Negotiation But...	Never Even Reached the Negotiating Table
Safeguard international and domestic environmental laws based on production/process standards (Tuna-Dolphin problem)			X
Shield domestic product-based environmental and consumer laws from challenge as illegal trade barriers			X
Repair language on international environmental agreements so that more IEAs are included and countries are allowed to use all domestic measures necessary to enforce EIA obligations			X
Fixing the "Necessary Test" and Other Problematic NAFTA Language that Connects to Bad GATT Precedents			X
Secure a community-controlled border environmental clean up, infrastructure build up plan			X
Secure "new" source of environmental funding via polluter pays principle			X
Repair NAFTA terms that threaten state and local green laws			X
Repair language in investment chapter to make obligation not to lure investment by lowing standards binding			X

What Clinton Said Must Be Fixed NAFTA in a 10/92 Policy Statement	"Fixed"	Included in Negotiation But...	Never Even Reached the Negotiating Table
Ensure highway safety (in face of harmonization proposals)			X
Provide "democratic accountability" in NAFTA			X
Enforcement of environmental and labor standards in North America. (Formation of trinational commissions on environment and labor)		X • Commissions' main roles are merely cooperation, study of conditions. • Only non-enforcement of existing laws is reviewable. Any environmental or labor dispute caused by NAFTA's terms-- such as challenges of laws as illegal barriers-- cannot be addressed in the commissions. • The review process is convoluted, with numerous, complicated steps. Some steps have no time limitations. • A 2/3 vote by NAFTA countries is necessary to even initiate a review (unlike NAFTA's commercial dispute rules which allow any one party to initiate). • No on-site investigation or subpoena power is allowed; only access to public documents. • Specific companies causing pollution in violation of laws cannot be targeted. • Government to government fines (the so-called teeth) have a maximum of only $20 million, regardless of the actual damage. Failure to pay the fines could result in trade sanctions for Mexico only. Unless the Canadian provinces approve the side deals, Canada will not even be liable for the fines.	

Key

The issues listed in this table were detailed by President Clinton in his October 4, 1992 NAFTA campaign policy statement. Clinton said these "fixes" would be necessary for the NAFTA, signed by President Bush, to be a good deal for most Americans. The Clinton Administration, however, has failed to achieve these "fixes" in the supplemental negotiations. In fact, the vast majority of these problems never even made it onto the negotiating table. The Citizens Trade Campaign, a coalition of 70 national consumer, environmental, labor, family farm, religious and civic organizations as well as the environment/consumer NAFTA coalition have also listed other important fixes which also never made it onto the negotiating table. This table has been updated on the basis of the side agreements announced August 13, 1993.

Prepared by Public Citizen, a consumer group founded by Ralph Nader.
For more information please contact Lori Wallach, (202) 546-4996
215 Pennsylvania Ave., S.E. Washington, D.C. 20003

PREPARED STATEMENT OF SENATOR MALCOLM WALLOP

[September 15, 1993]

From the beginning of this debate, I have maintained that NAFTA is perhaps America's most important post-war foreign policy issue. It is critical to the stability and prosperity of our continent. It is critical to America's ability to compete in a shrinking global economy. Indeed throughout my career in the Senate, I have held firm in the belief that free trade is the best guarantor of prosperity for all nations.

I have also maintained that the side agreements on labor and the environment are issues less related to trade than to domestic politics and therefore unnecessary to the NAFTA. Throughout the negotiating process on the sidebar agreements, I had concerns as to how these agreements would be enforced—I was and continue to be wary of a "supranational" enforcement body. Now that the agreements have been signed and disclosed, it appears at first blush that the United States has not yielded too much ground. It appears that we have not transgressed Congress' authority to pass laws, the executive's ability to administer them, or the court's ability to enforce. I would only caution that in drafting implementing language and regulations that these most basic American sovereignties not be transgressed.

As Ambassador Kantor is aware, I continue to have concerns about how the sugar industry will be affected, however. Given some of the current wording in the agreement, there is an artificial incentive for investment in Mexican sugar production. I have joined with a number of my colleagues in telling the Clinton administration repeatedly that this problem could be solved with some relatively minor technical changes which affect the definition of Mexico's "surplus producer" status. I know the issue has been raised with the Mexican Government. I am disappointed that we have not seen a resolution yet to this problem.

Finally, I'd like to make a few comments in reaction to organized labor's opposition to this treaty. I find it very puzzling how they can fail to recognize a few basic facts about economic growth. No country with a surplus of labor, be it Mexico or Bangladesh, will possess a climate favorable to the establishment of strong labor representation. When you have 30 workers competing for one job, labor simply has no leverage to organize or bargain. NAFTA will mean increased exports for the United States and Mexico. Exports mean more jobs. With job growth outpacing population growth, workers gain leverage to improve wages, working conditions, and health benefits. If labor unions really represented workers' rights, you'd think this logic would be clear to them.

PREPARED STATEMENT OF SENATOR MALCOLM WALLOP

[September 21, 1993]

I'd like to make a few comments in reaction to organized labor's opposition to this treaty. I find it very puzzling how they can fail to recognize a few basic facts about economic growth. No country with a surplus of labor, be it Mexico or Bangladesh, will possess a climate favorable to the establishment of strong labor representation. When you have 30 workers competing for one job, labor simply has no leverage to organize or bargain. NAFTA will mean increased exports for the United States and Mexico. Exports mean more jobs. And with job growth outpacing population growth, workers gain leverage to improve wages, working conditions, and health benefits.

Rejecting NAFTA would do nothing for the concerns raised by its critics. And many of their concerns are valid. But without NAFTA, real abuses—border pollution, non-enforcement of environmental and labor standards—would continue unabated. Chronic poverty in Mexico would continue. Killing NAFTA would not stop multinational corporations from leaving the United States. Nor would killing NAFTA cause Mexico's wages to rise.

There are fundamental changes occurring in the American economy, indeed in the global economy. These fundamental changes have meant job losses for the U.S. in labor-intensive industries like textiles and apparel. But it's important to remember that these changes will occur with or without NAFTA. The real question is whether these jobs move to Mexico or East Asia. The difference is important: U.S.-Mexican ventures buy 51% of their components from the U.S., while U.S.-Pacific Rim ventures buy only 13%. Finally, jobs dislocated by NAFTA represent less than 2% of the total dislocation that would happen over the next five years even without NAFTA. The big difference is this: With NAFTA we create the opportunity for new, export-related jobs. Without NAFTA not only do we forego those new jobs, we put at risk those American jobs that are currently supported by exports to Mexico.

To say that firms will head south because of NAFTA makes is a bit like saying that NAFTA will cause folks in Wyoming to head south to avoid the harsh Wyoming winters. Yes, winter in Mexico may beat winter in Wyoming, but that's got nothing to do with NAFTA. That's why the much touted "59 cents an hour" is so silly. First of all, its not even an accurate measure of Mexican compensation. Second, using purchasing power comparisons (as opposed to dollar exchange comparisons), two world bank economists have calculated that U.S. manufacturing compensation was actually only 4.7 times higher than in Mexico in 1991. Since U.S. manufacturing productivity was 4.6 times higher than in Mexico, productivity-adjusted compensation costs in 1991 were almost identical. It's no coincidence that NAFTA opponents in Mexico are worried about jobs going to the more productive American workers up north!

According to the Mexican finance ministry, "companies persist in pointing out . . . poorly trained labor . . . and high costs as the main obstacles they face." Indeed, last week's *Wall Street Journal* made just that point in an article entitled, "Illusory Bargain: Some U.S. Companies Find Mexican Workers Not So Cheap After All." As the article explains, the focus on wages "overlooks the many factors . . . that actually drive business decisions," like infrastructure, a stable and predictable business climate, the quality of transportation, access to technology and the skills base in the surrounding area.

In other words, as in all things, you get what you pay for. A final point worth mentioning is this: Cheap labor has never been the main reason for setting up operations in Mexico. Instead, the main reason U.S. plants were built in Mexico was to get around trade barriers—trade barriers that will disappear under NAFTA.

A final point: Cheap Mexican labor does threaten the wages and well-being of the American worker. But the threat is not in Mexico, rather it's right here in the U.S. As long as Mexico lacks sufficient economic opportunity, illegal immigration will continue. Illegal immigrants, who evade the system, who are willing to work for less than minimum wage, who drain the system of benefits paid for by tax-paying, hard-working Americans, are the real threat. The only way for us to stem that tide is by helping to create a "Mexican dream" for Mexicans. It truly escapes me how those who claim to represent the American worker can work to defeat the very agreement that will give our workers better opportunity, more stability, greater leverage, and, most importantly, a better America.

COMMUNICATIONS

STATEMENT OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

AAEI is a national organization with over 1,200 U.S. companies involved in every aspect of international trade. In April 1990, the Association formed a committee to monitor and advocate the negotiation of a free trade agreement between the United States and Mexico which later included Canada in February of 1991. Currently, approximately 100 companies are participating in AAEI's NAFTA Committee. The Committee represents the interests of establishments conducting trade in a broad range of goods and services with Mexico and Canada.

AAEI fully supports NAFTA, for it provides an opportunity to create an economic alliance of one of the largest marketplaces in the world. NAFTA would allow each country to maximize its own competitive advantages and to share in those of its neighbors. A free trade agreement between the U.S., Mexico, and Canada is the first step toward a mutually beneficial hemispheric free trade zone.

ECONOMIC OVERVIEW OF NAFTA

AAEI believes that the time for a North American Free Trade Agreement has arrived. Today, Canada is the largest trading partner of the United States, and Mexico is the U.S.'s third largest trading partner. NAFTA is expected to create a market with more than 360 million consumers and producers and an economy of greater than $6 trillion, one of the largest markets in the world.

Moreover, due to the trade benefits conferred by the Agreement, NAFTA will permit each of the signatory countries to maximize its own competitive advantage and to share in those of its neighbors. For example, the reforms undertaken by Mexico since its succession to the GATT on August 24, 1986, have led to a tremendous expansion of trade with the United States. As a result bilateral trade between the U.S. and Mexico over the past four years has increased by seventy-five percent (75%). The reforms instituted by the Mexican government have also led to a tremendous expansion of U.S. foreign investment in Mexico which currently amounts to $12 billion. This figure represents sixty percent (60%) of the value of total foreign investment in Mexico.

The changes which have occurred in Mexico over the past five years have opened its market tremendously, with U.S. exporters being primary beneficiaries of the trade and investment liberalization. A free trade agreement will build on these growing market and employment opportunities.

SPECIFIC OBJECTIVES OF NAFTA

AAEI believes the specific objectives of NAFTA should be to eliminate impediments to and foster the expansion of trade in goods and services among the countries. Most importantly, the NAFTA implementing legislation should not be exclusionary so as to prejudice trade with other nations of the world. For this reason, the following must be ensured:

1. NAFTA should be consistent with the principles of and U.S. commitments under the GATT, such as non-discrimination and transparency.
2. NAFTA should provide a structure for the future adherence of other Western Hemisphere countries, as envisioned in the "Enterprise for the Americas Initiative," with all signatories receiving equal, unrestricted access to markets of member countries.

SCOPE AND CONTENT OF NAFTA

The U.S.-Canada Free Trade Agreement (US-CFTA) has provided a useful model for NAFTA. In addition to improved protection of intellectual property rights, and the establishment of fair and expeditious dispute settlement mechanisms similar to the U.S.-Canada Binational Panel, AAEI feels strongly that four technical trade issues must still be addressed with respect to NAFTA: (1) Border Facilitation, User Fees; (2) Rules of Origin; (3) Drawback; and (4) Caribbean Basin Initiative (CBI).

1. Border Facilitation in General

Delays in clearing goods along the U.S.-Mexico border continue to pose an economic threat to companies doing business in Mexico. These delays affect the predictability and reliability of delivery dates and, with the growing use of "just in time" inventory manufacturing, offset the benefits of proximity. Also, long delays encountered by company personnel driving back and forth add to the cost and frustration of doing business along the border. Existing U.S. border inspection facilities and staffing cannot adequately accommodate the current flow of commercial traffic.

A successful NAFTA which increases bilateral trade will only add to the problem unless steps are taken to relieve border congestion. While AAEI recognizes the budgetary constraints on both sides of the border, moving goods and people efficiently is a fundamental prerequisite to increasing trade. In considering ways to streamline operations at the border, the solutions must be binational in concept and implementation. To this end, AAEI offers the following suggestions:

(a) operating hours should be extended, and the number of inspectors at the border crossings should be increased whenever justified. Common hours of operations should also be established. As demand grows, 24-hour processing and additional border crossing should be considered. In the interim, current commercial border facilities should be better maintained and staffed.

(b) Better coordination among the myriad of federal, state and local agencies involved at the border is essential and must be initiated.

(c) Forms, procedures and fees should be harmonized.

(d) Binational inspection stations for commercial traffic to reduce the cost and time of dual inspections should be considered.

Border Facilitation: User Fees

AAEI is pleased with the elimination of the Merchandise Processing Fee with regard to Canada and with the phaseout of the fee as applied to Mexican goods. However, AAEI is deeply concerned about the proliferation of other user fees and import surcharges imposed on the business community. Many of these fees do not accomplish their stated goals and the administration of collecting fees often places an even greater burden on the resources of government agencies.

With respect to the Harbor Maintenance Fee, collection has not been uniform, and is more recently embroiled in regional politics. The patchwork and poorly written law has left the U.S. Customs Service unable to devise an efficient method to administer collection. In addition, a complex cotton product fee became effective last year. Other fees under consideration include a fee to help finance facilities at the U.S.-Mexico border. The overall impact of these fees is a quiet, but significant, shift to taxation of the business community for mandated services normally financed from the General Treasury as a result of taxing incomes and corporate profits.

A border facilitation fee, or a fee imposed for the environment, would violate the spirit of NAFTA and reduce the benefits NAFTA should provide to U.S. business and consumers. Further, depending on how the fee is structured, it could violate U.S. international obligations. The unresolved questions in the administration of a border fee are numerous. They include:

(a) How and what government agency will administer the fee?
(b) Will the fee be administered according to a formula based on value or volume?
(c) Will the fee be annual or based on each border crossing?
(d) Will the fee be collected from the shipper, carrier or broker/forwarder?
(e) Will the fee be administered in a parallel manner in Mexico and Canada?
(f) How will Congress exercise oversight and avoid regional rivalries for resources?
(g) What will be the duration of any fee?

In essence, the danger of a border crossing fee for rebuilding an infrastructure is that it will neutralize the benefits of lower tariffs under NAFTA and constitute yet another tax on business and consumers. Thus, the imposition of a border crossing fee would be counterproductive and is opposed by the members of AAEI.

2. Rules of Origin

Since NAFTA was first conceived, AAEI welcomed the opportunity to negotiate new rules of origin which would improve and simplify the rules contained in the US-CFTA. Rules of origin have the potential to become significant non-tariff barriers, and AAEI commends the NAFTA negotiators for their efforts to draft a practical rule which would not inhibit cross border trade.

Although the NAFTA rules of origin represent a distinct improvement over the US-CFTA rules, they too, could possibly become trade barriers, either through interpretation or application. For this reason, we urge publication of advanced rulings by Customs for comment by the trade community and complete training of both Customs personnel and the trade on proper application of the rules.

This testimony will evaluate NAFTA rules of origin and discuss whether these rules meet the expectations of AAEI members. We hope members of Congress will take this analysis into consideration in the broader context of future multilateral negotiations.

The NAFTA rules of origin, like the US-CFTA rules, are based on the Harmonized Tariff System. Under NAFTA, the standard rule is that if non-originating materials used in the production of a finished item undergo a shift in tariff classification at the six digit level, the "new" item is treated as a product of the country where the change has occurred. AAEI wishes to remind Congress and the Administration that the Harmonized Tariff System was not structured or implemented with a tariff shift origin system in mind. Although it is a simple concept to state, its practical application is not as clear.

The NAFTA rules do not represent a straightforward tariff heading shift rule since compromises were made due to pressures from certain domestic industries in each country. For example, the U.S. automobile, textiles and computer industries were successful in obtaining rules for their industries that are not strictly based on tariff classification shift principles. Many other industries must meet a value-added test to qualify their products for NAFTA benefits. Thus, the potential for trade inhibition is present within the NAFTA rules of origin. AAEI is equally concerned about possible application of these rules outside of NAFTA.

In general, the Association is concerned with the technical aspects of trade agreements. Its members rely on technical information to ensure Customs compliance and smooth flow of goods and components across borders. In this context AAEI members are opposed to certain aspects of the NAFTA rules that can be perceived on paper and in practice as non-tariff trade barriers. Without detailing each product section a few examples are noteworthy. In the auto sector there is a list published of over one hundred products which must be traced by U.S. industries from their creation to their final incorporation into a new and different product or into the automobile itself. While the auto industry supported such a tracing requirement, it has the potential for creating huge amounts of paperwork and misunderstanding. As more companies expand and globally source their components, the task of tracking every component and part, and, if necessary, proving the origin to Customs, grows more formidable.

Another concern of AAEI members regards textiles and apparel. The domestic textile industry was successful in obtaining a yarn-forward or fabric-forward transformation requirement for textile and apparel articles to gain the benefit of NAFTA, and in certain circumstances, a tariff rate quota is imposed. This type of compromise ensures only the three parties of the NAFTA benefit from it. However, it represents a more restrictive rule which does little to enhance trade or to account for the realities of global sourcing.

If an importer does not meet the tariff shift rule, the importer is permitted to use the regional value content rule to gain NAFTA benefits. In some circumstances, however, industries are not given a choice. They might be required to use both the tariff shift and regional value content, or they might be prohibited from using a tariff shift rule from the outset. The regional value content is calculated by using either the transaction value of the merchandise or by calculating the net cost of the components of the final product. Using either method, the importer must meet a specified percentage of content. A problem with the transaction value rule is that the transaction value contemplated by NAFTA does not necessarily correspond to the transaction value declared by an importer on its Customs document. This has the practical effect of burdensome recordkeeping for U.S. business and U.S. Customs. Likewise, the net cost method would require a myriad of calculations and a substantial recordkeeping system.

Further, certain parties, such as related parties, are in essence, denied the choice of using the transaction value method and must use the net cost method to claim NAFTA benefits. Even though the Customs transaction value is accepted for their other Customs entries, NAFTA prohibits companies from using the transaction value calculation if during the previous six months over 85% of a company's total sales of a product are to a related party. For example, a U.S. company has a subsidiary in Mexico which produces keyboards. The Mexican "sub" sells these keyboards to the parent company in the U.S. and to all the other subsidiaries around the world. Until now, U.S. Customs has accepted the transaction value of the keyboards since the parent and subsidiary have dealt with each other as if unrelated. Even though 85% of the keyboards from the Mexican "sub" will not be sold to the U.S. parent, NAFTA includes all the sales of the keyboard to any related company around the world in calculating the 85% figure. Once a company is over the 85% limit, it must use the net cost method, an entirely different calculation than used in the ordinary course of business. This is quite simply an unnecessary impediment to trade.

Finally, AAEI believes that the *de minimis* rule embodied in the NAFTA falls short of its goals. *De minimis* allows for a percentage of non-originating components in the finished product. The absence of a *de minimis* rule in the US-CFTA was a significant problem, and AAEI fought hard to have such a rule written into NAFTA. While AAEI applauds the inclusion of the rule in the final document, the current rule is far more restrictive than anticipated, and may therefore be of little practical benefit. Here, and in similar areas, U.S. implementation and application of NAFTA may actually inhibit trade.

3. Duty Drawback

The treatment of duty drawback under NAFTA is of great importance to those U.S. companies involved in international trade. Duty drawback allows the refund of 99% of Customs duties paid on imported merchandise, or products made therefrom, which are subsequently exported. Duty drawback was established by Congress in 1789 as a mechanism to enhance and promote U.S. exports and domestic manufacturing by facilitating a level playing field for U.S. exporters. This is more crucial today than ever.

AAEI's Duty Drawback Committee, constituting the largest advocacy group in the U.S. on duty drawback, is composed of a broad range of over 120 U.S. companies and meets bimonthly in various locations around the nation. The Committee takes a very clear position regarding duty drawback under NAFTA.

Elimination of most types of drawback (i.e. direct identification, manufacturing substitution) is provided for in NAFTA, by the year 1996 between the U.S. and Canada, and by the year 2001 between the U.S. and Mexico. AAEI encourages application of a similar phaseout period to same condition substitution drawback which will be eliminated immediately according to the final NAFTA text.

AAEI recommends that representatives from industry drawback groups work closely with the Administration in developing implementing language concerning duty drawback within NAFTA. This is important for ensuring the development of procedures which are workable for the trade community.

4. Caribbean Basin Initiative (CBI) NAFTA Parity

AAEI supports passage of the Caribbean Basin Free Trade Agreements Act since NAFTA parity for the Caribbean will ensure increased American employment and more competitive U.S. production which will lead to increased exports. NAFTA parity will also contribute to economic and political stability of countries neighboring the U.S.

AAEI encourages the key premise of NAFTA parity which is to accord articles currently excluded from duty-free treatment under the Caribbean Basin Economic Recovery Act (CBERA) identical treatment to like articles imported into the U.S. from Mexico. The principal articles to which the Act applies are textiles and apparel subject to textile agreements, footwear, handbags, luggage, flat goods, work gloves and leather wearing apparel. Some of these industries are the region's largest employers, an important source of foreign exchange, and are essential to the continued development of the delicate Caribbean Basin Initiative (CBI) economies.

AAEI strongly supports the Caribbean Basin Free Trade Agreements Act because NAFTA parity is important for continuation of Caribbean Basin efforts toward trade liberalization and a market economy. It will also aid in the preservation of existing economic advantages under CBI and prevent diversion of investment due to NAFTA by granting parity to CBI countries. Further, it will promote trade under CBI and enhance U.S. export opportunities to the Caribbean Basin.

SUPPLEMENTAL AGREEMENTS TO THE NAFTA

Labor

There is certain to be a net gain in U.S. employment, investment and consumption under the NAFTA. Currently, more than 7.5 million U.S. jobs are attributable to product exports. Of these, 2.1 million are the result of trade with Canada and Mexico. Over 600,000 Americans are now employed due to U.S. exports to Mexico, and this number should grow to one million by 1995. More than 1.5 million Americans are employed in jobs related to U.S. exports to Canada.

Although AAEI acknowledges there is likely to be some shift in production under the NAFTA, experience has shown that industry does not migrate to the extent wage differentials might suggest. Rather, trade liberalization under NAFTA will be phased in, thus providing U.S. businesses, and the labor force, the opportunity to adjust to the changing trade regime. However, the shift in jobs caused by the NAFTA will require labor retraining and aid to communities which are particularly hard-hit.

In many instances, the question is not whether labor-intensive jobs will remain here or move to Mexico under NAFTA—rather, it is a question of whether the jobs will move to Mexico or whether U.S. companies will move their operations to other countries. Given the choice of losing a job to Mexico or losing one to a country further from our shores, we should opt for relocation to Mexico because Mexican consumers already spend a great deal of money on U.S. products, and are likely to increase consumption of U.S. goods significantly under NAFTA.

Environment

AAEI believes environmental awareness in Mexico will grow with the economic progress brought by NAFTA. Currently, however, NAFTA is being held hostage to protectionist groups masquerading as environmentalists. At this stage, it is important that legitimate environmental concerns be met in a responsible manner, or NAFTA will be lost. Progress is necessary both in terms of substance and in terms of public relations.

AAEI opposes suggestions that the U.S. impose countervailing duties on Mexican exporters who fail to comply with pollution control mandates imposed on U.S. factories. We believe the solution is improved enforcement of laws, not the imposition of punitive duties. Concerns that NAFTA could weaken U.S. public health standards are largely the result of misleading statements by some environmental and protectionist groups about present and future GATT procedures. Simple, brief statements in the NAFTA can resolve any problems regarding this issue.

Finally, citizens and interest groups must be given a mechanism through which to voice concerns regarding the environment. Prompt public response to legitimate complaints will be very important. We also commend the creation of an effective dispute settlement procedure to avoid retaliation.

CONCLUSION

In summary, AAEI believes elimination of trade barriers among the NAFTA countries will enhance the competitiveness of U.S. businesses. This will allow for expansion of U.S.-based companies into the global marketplace and lower the cost for U.S., Mexican, and Canadian consumers of imported products. Further, NAFTA should help to strengthen Mexico's commitment to continue opening its markets and modernizing its economy. This, in turn, will benefit U.S. exporters, lead to new manufacturing and supply relationships, and help to improve Mexico's economy. Clearly, these benefits will also serve to promote political stability in Mexico and to foster a spirit of cooperation which will extend to non-trade areas such as the environment, immigration and illegal drug trafficking.

Statement of the American Gas Association

INTRODUCTION

The American Gas Association (A.G.A.) is a trade association comprising some 250 natural gas distribution and transmission companies, including members from Mexico and Canada. On behalf of our members, A.G.A. supports the North American Free Trade Agreement (NAFTA) between the governments of the United States, Mexico and Canada.

Our statement will focus on the benefits of NAFTA for the United States, generally, and for the natural gas industry in particular. We will also discuss two issues that are raised by opponents of the pact—the impact of NAFTA on the environment and on employment in the United States. A.G.A. supports NAFTA because of the economic benefits we see arising from creation of an integrated North American market for goods and services. We believe that, contrary to what critics have alleged, NAFTA will have a positive impact on the environment and will create jobs in all three countries.

BENEFITS OF NAFTA FOR THE THREE COUNTRIES

The immediate benefit of NAFTA will be the removal of trade barriers that have hampered the creation and cultivation of healthy long-term commercial relationships between the United States, Canada and Mexico. The importance of bilateral trade between the United States and Canada led to the historic Canada-United States Free Trade Agreement (FTA) in 1989. NAFTA is a logical extension of the political and economic philosophies that undergird the FTA.

NAFTA will create the world's largest free trade zone. Most of the major changes brought by NAFTA for the United States will involve its economic relationship with Mexico. NAFTA will help spur economic growth in Mexico, by eliminating barriers to trade that have hampered U.S. and Canadian investment in Mexico. In international markets, the free trade zone created by NAFTA will help all three countries become more competitive, drawing upon the economic synergies that will flow from the strengthened economic ties between the United States, Mexico and Canada.

For exporters of goods and services in the United States, the principal impact of NAFTA will be to eliminate tariffs that have discouraged access to markets in Mexico. Mexican tariffs on U.S. goods average 10 percent, and natural gas exported to Mexico is subject to a 10 percent tariff. U.S. tariffs on Mexican goods average just 4 percent. Eliminating this imbalance will strengthen economic ties between the three countries and enhance the international competitiveness of all three nations.

NAFTA should result in an increase in exports from the United States to Mexico, continuing a trend that has been driven by a strong expansion in the Mexican economy. Mexico's President Salinas has initiated a program of liberalizing foreign investment and trade, as well as privatizing state-owned companies, resulting in a growing economy and demand for U.S. products, particularly manufactured goods. Adoption of NAFTA will promote free market initiatives in Mexico and demonstrate concrete U.S. support for further similar free market initiatives. In the long run, NAFTA's beneficial effect on trilateral trade will mean more jobs for Americans, Mexicans and Canadians.

By insisting on continued vigilance in protecting the environment, NAFTA will also improve the environmental quality of life for the citizens of all three countries. The side accords signed by President Clinton on September 14 make it clear that NAFTA will promote the interests of free trade with due consideration of the importance of protecting the environment of all three countries. The side accords require that each country vigorously enforce its own environmental laws and regulations. The side accords create a mechanism, the Commission for Environmental Cooperation, by which environmental matters within the scope of NAFTA can be reviewed. Without NAFTA, this important environmental mechanism and a means of encouraging even greater strides in environmental protection would be lost.

NAFTA will lead to economic efficiencies in all three countries. In turn, these increased efficiencies will lead to reductions in harmful wastes and pollutants. Natural gas stands to play an important role in this process, since it is the most environmentally acceptable of all fossil fuels and, on a source energy efficiency basis, is more efficient than all competing fuels, including electricity. The increased use of natural gas will have a significant impact on the air quality of all three countries. Attached as "Exhibit I" is an A.G.A. Issue Brief, "The U.S.-Mexican Natural Gas Relationship," first published in November, 1992, and recently updated to reflect the latest available data. It describes the immense potential for natural gas in Mexico and describes some of the projects that already are underway to spur economic development using Mexico's abundant supplies of natural gas.

BENEFITS OF NAFTA FOR THE NATURAL GAS INDUSTRY

In addition to establishing the world's largest free trade zone, NAFTA will create a natural gas industry that is truly North American in scope. Combined, the United States, Canada and Mexico will be the world's largest natural gas market. The growing Mexican economy will demand more natural gas as well as more natural gas supplies, equipment, technology and expertise from the United States. To support continued economic growth, Mexico's energy demand will likewise grow, and U.S. companies stand to gain from this growth. In 1992, Mexico used approximately 1 trillion cubic feet (Tcf) of natural gas and it maintains over 70 Tcf of reserves. Despite these vast reserves, Mexico has been a net importer of natural gas from the United States almost every year since 1971, importing 96 billion cubic feet (Bcf) in 1992. According to A.G.A.'s estimate, this could grow to 450 Bcf by 1995. U.S. natural gas exports to Mexico, which are used extensively by factories close to the border, are expected to continue until the Mexican natural gas industry can meet this demand with its own resources. We expect that the Canadian natural gas industry also will be a major participant in natural gas trade with Mexico.

NAFTA provides opportunities for U.S. and Canadian energy services and supply companies to sell to Mexico's state petroleum and electricity companies and allows private ownership and operation of independent power plants and cogeneration facilities. NAFTA will facilitate direct negotiations between U.S. and Canadian companies and Mexican buyers of natural gas and electricity. A number of projects that would use natural gas to generate electricity already are in developmental stages in Mexico. For example, CFE, the Mexican power authority, will be soliciting bids by the end of 1993 to repower the existing Rosarito plant in Baja California Norte, just outside Tijuana, Mexico. The modified plant is expected to provide up to 1500 megawatts to the growing market along Baja California Norte's northern coast and across the border in the United States in Southern California.

Another project is being developed in Samalayuca, Chihuahua, just south of Juarez. The Samalayuca II project will involve design and construction of a 700 watt combined-cycle natural gas unit. Combined-cycle electricity generation involves state-of-the-art technology that can achieve efficiencies in excess of 50 percent, as well as significant reduction in emissions, compared to conventional coal and oil fired boilers that are only 30 percent efficient. The project is being sponsored by a consortium consisting of El Paso, Coastal and GE. A natural gas pipeline from the United States—Mexico border would supply 140 million cubic feet of natural gas per day to this facility.

Enron Corporation is also playing a major role in the development of Mexico's power generation market. Mexican authorities estimate that the country will need 16 gigawatts of additional generating capacity by 1999, requiring an investment of an additional $15 billion for new power plants. If NAFTA is adopted, a substantial portion of this investment will take the form of capital equipment and services, and a large portion of this business can be expected to go to U.S.-based manufacturers and engineering firms. Enron is looking at potential investments totalling one billion dollars or more in Mexico for power plants and pipelines. All of this potential investment will be significantly affected by adoption of NAFTA. U.S. manufacturers will likely produce the equipment for these projects in the United States, since NAFTA will gradually reduce the current 17 percent tariff on electrical equipment imported into Mexico. Without NAFTA, this equipment may be produced elsewhere.

In addition to these projects in Mexico, a number of projects are underway in the United States to support increased trade with Mexico. For example, Shell Oil Company and Petroleos Mexicanos (PEMEX) are involved in a joint venture wherein a 50 percent interest in Shell's Deer Park, Texas refining facility to a new corporation controlled indirectly by PEMEX. PEMEX's investment in this facility will go toward upgrading the facility and making it more efficient and, as a result, more internationally competitive. Deer Park will be able to increase its production and its exports. It will result in creation of 2,000 construction jobs as the facility is built and upgraded and will ultimately provide 150 permanent new jobs required to operate the facility after the upgrade construction is complete. Deer Park will refine Mayan crude oil and export processed gasoline to Mexico. NAFTA is needed to facilitate these and similar undertakings.

NAFTA AND THE ENVIRONMENT

Some opponents of NAFTA have sought to portray the government of Mexico as being less sensitive to environmental concerns than the governments of the United States and Canada. This is not the case. In fact, since 1988, Mexico has had in place a comprehensive environmental law that covers air quality, water quality and soil pollution. It is patterned on U.S. environmental measures. Mexico has been a signatory nation to major international environmental accords, such as those pertaining to endangered species and global warming.

Mexico's implementation and enforcement of its 1988 environmental law reflect a strong commitment to protecting the environment in Mexico. According to a recent news report, the Mexican government has shut down approximately 2000 factories, either temporarily or permanently, that were in violation of the 1988 environmental laws. Since 1990, Mexico increased its budgetary support for environmental enforcement from $6.6 million to $77 million by 1992. In border areas, Mexico has increased the number of environmental inspectors from 50 to 200.

The geographic location of Mexico City, bordered on all sides by mountains and located at a high altitude, combined with a population of nearly 20 million people, provides an ideal site for serious pollution concerns. For these reasons, Mexico City has been the focus of aggressive environmental initiatives by President Salinas. In 1991, the government permanently closed the March 18 Refinery in Mexico City. In March, 1992, President Salinas announced aggressive enforcement initiatives focusing on industrial polluters in and around Mexico City. That initiative requires the biggest industrial polluters in the area of Mexico City either to reduce particulate emissions by 90 percent or leave the City.

Because of progress in lowering emissions of oxides of sulfur, carbon monoxide and lead, the Mexican government has focused additional attention to the problem of ozone. On March 17, 1992, ozone levels reached all-time highs in Mexico City, prompting such unprecedented anti-smog measures as canceling all schools below university level, barring drivers from operating their cars and forcing industries to restrict their output. Natural gas has been targeted as a solution to air quality problems, especially in and around Mexico City. The Mexican government has also ordered all fossil fuel power plants in Mexico City to switch to natural gas from high sulfur fuel oil.

The Mexican government is also planning an aggressive program to convert vehicles in Mexico City to natural gas. On February 11, 1992, the Mexican government announced plans to convert 450,000 public transportation and cargo vehicles to natural gas over the next four years. Public transportation accounts for an estimated 25 percent of Mexico City's air pollution. The Mexican government will set up conversion sites and provide low-interest loans to private vehicle owners, who own most of Mexico City's public transportation vehicles.

Increasing the use of natural gas in both stationary and vehicular applications will enhance the environmental quality of life in Mexico. One of the most significant impacts of NAFTA for the natural gas industry is that it will encourage continued economic development in Mexico, thereby spurring demand for cleaner, more efficient natural gas. This increase in natural gas demand in Mexico will be mirrored on the United States side of the border, where manufacturers will use natural gas to satisfy an increased demand in Mexico for U.S.-made goods.

NAFTA AND EMPLOYMENT

Some NAFTA opponents have expressed concern that NAFTA will lead to the loss of jobs in the United States. This concern ignores the fact that Mexico is the fastest growing foreign market for U.S. manufactured goods. Approximately 650,000 U.S. jobs now depend on trade with Mexico. After the liberalization of trade with Mexico that inevitably will result from NAFTA, we foresee an even greater number of U.S. workers whose livelihoods are dependent on strong trade with Mexico.

In the natural gas industry, we expect a strong growth in demand from the Mexican economy, which will burgeon as a result of NAFTA. In 1992, $182 million was earned as a result of natural gas exports to Mexico. By 1995, annual income from sales of natural gas to Mexico could approach $1 billion, given the growth in demand that will occur in the Mexican economy.

The NAFTA Side Accords on Labor Cooperation, signed on September 14 by President Clinton, are intended to address concerns about worker conditions in Mexico. The Side Accords contain 11 Labor Principles that are intended to promote common minimum standards and protect the rights and interests of workers in the three countries. The Labor Principles endorse minimum employment standards, including a minimum wage, wage equity for men and women, and labor protections for children and young persons. If NAFTA is not adopted, a valuable opportunity to encourage these guiding principles, will be lost.

NAFTA critics also claim that the wage differential between the United States and Mexico will encourage businesses to leave the United States. They believe that NAFTA, by eliminating most tariff barriers, will provide further encouragement to U.S. businesses to relocate in Mexico. The argument incorrectly concludes that jobs will be lost in the United States and manufacturers will bring cheaper Mexican manufactured goods back into the United States, hurting U.S. manufacturers.

These allegations ignore several factors that businesses would take into account before making a decision to relocate. The Mexico's economic infrastructure is not nearly as well-developed as in the United States. Telecommunications, access to equipment and supplies, access to markets and access to a suitably trained work force are just a few of the issues that would have to be addressed by a business seeking to relocate in Mexico. At present, U.S. businesses cannot replicate the necessary infrastructure quickly enough to make such a move profitable. Wages are only one criterion in making such a critical business decision. In fact, infrastructure development is an area where NAFTA could result in an increase in employment by U.S. businesses seeking to provide Mexico with advice and other assistance in the development of such an infrastructure. Without NAFTA, the incentives for infrastructure development in Mexico will not be as strong.

CONCLUSION

The benefits of NAFTA for each nation are numerous, and the energy industry would see significant benefits. By offering significant opportunities for U.S. natural gas concerns, NAFTA will strengthen our domestic natural gas industry and improve our competitiveness in world markets. NAFTA will have a direct positive effect on the natural gas industry in all three countries, creating the largest natural gas market in the world. The increased natural gas use we anticipate arising under NAFTA will have a significant and positive impact on Mexico's environment. As the Mexican economy becomes more efficient, infrastructure improvements will occur and the overall quality of life will improve. Given the importance of natural gas for clean air and other reasons, we believe that employment in the natural gas industry in all three countries will also increase as a result of NAFTA. We see this situation as a clear "win-win-win" for all three nations and their economies. Thus, we urge the Committee to recommend adoption of NAFTA.

American Gas Association

Policy & Analysis ISSUES

A.G.A. POLICY & ANALYSIS GROUP

1515 Wilson Boulevard
Arlington, Virginia 22209

EXHIBIT I

Issue Brief 1992-11

November 30, 1992

The U.S. - Mexican Natural Gas Relationship
(Statistical Update September 1993)

In Brief

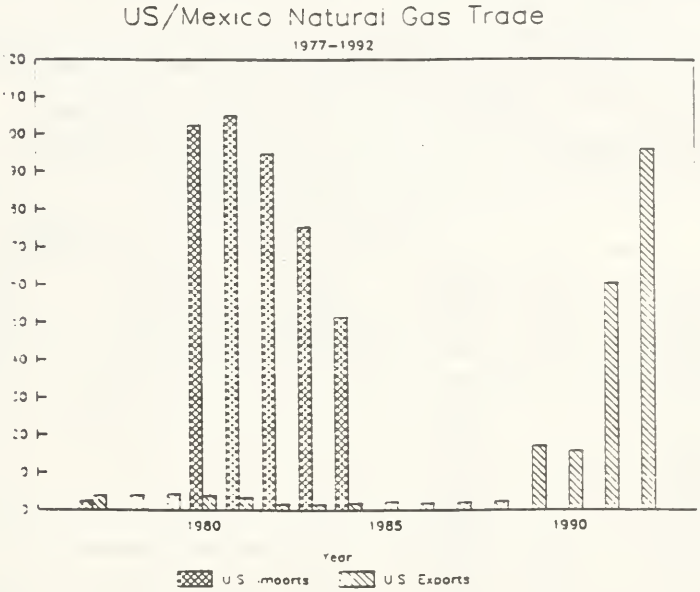
The natural gas relationship between the United States and Mexico has changed dramatically over the last decade. In 1982, the United States *imported* nearly 95 Bcf of gas from Mexico. In 1992, the United States *exported* nearly 96 Bcf to Mexico. Several factors have contributed to this reversal in trade including: a fundamental difference in the view of the U.S. natural gas resource base; declining U.S. gas prices; a growing environmental awareness in Mexico; a need for new sources of energy to supply the maquilladora industries in northern Mexico; and, the reluctance of Mexico to spend the capital necessary to develop its natural gas resources. This article provides a historical review of U.S. - Mexican natural gas trade, provides a company-by-company and export point accounting of recent U.S. export volumes, examines the Mexican resource base and drilling activity and also provides a review of pipeline expansion projects designed to greatly expand U.S. natural gas export capacity to Mexico.

Introduction

Fueled by developments on both sides of the border, natural gas exports from the United States to Mexico have increased significantly over the last several years. Figure 1 shows the level of trading between the two countries since 1977. 60.4 Bcf was exported to Mexico in 1991, the largest annual volume of natural gas ever exported by the United States to any one country. In fact, the 60.4 Bcf exported in 1991 was greater than the total amount of gas exported to Mexico in the years 1979 through 1990. 1992 exports, which totaled 96 Bcf were well above 1991 levels. (See Table 1)

1992 natural gas exports to Mexico represented nearly 44 percent of the United States' total natural gas exports. This figure is up substantially from 1987, when only four percent of U.S. natural gas exports went to Mexico. The U.S. also exports gas to Japan and Canada. For the eight consecutive year, the U.S. did not import any gas from Mexico in 1992.

Figure 1



Background

Beginning in 1980, U.S. natural gas imports from Mexico were made under the October 19, 1979 gas-purchase-and-sale agreement between Petroleos Mexicanos (Pemex), the national oil and gas company of Mexico, and Border Gas, a consortium of six U.S. gas transmission companies. The original contract allowed for up to 300 MMcfd to be delivered from Pemex at an interconnection at the U.S. border near Hidalgo, Texas. Deliveries began on January 15, 1980 and were priced at $3.625/Mcf. The contract called for quarterly adjustments in accordance with a composite index of world crude oil prices based on oil from the Middle East, the North Sea and Venezuela. However, over time Pemex requested price increases to $4.94/MMBtu so as to achieve parity with gas being imported into the U.S. from Canada. Subsequently, as a result of changing demand, Border Gas reduced its purchases to 180 MMcfd, or 60 percent of contract levels, effective April 1, 1983. Effective May 1, 1983, Pemex agreed to lower its price to $4.40/MMBtu, approximately one month after a similar reduction was made by the Canadian government.[1]

In the four year period 1980-83, the United States imported 377.6 Bcf from Mexico. However, during the summer of 1984, as wellhead prices decreased in the U.S., Pemex continued to require a high price for its gas. On November 1, 1984, deliveries of gas from Mexico were suspended under the terms of the contract for an unspecified period - a decision reached mutually by both parties. A changing U.S. gas market, which included declining wellhead prices and domestic production capability well in excess of demand, combined with increasing Mexican consumption, contributed to the suspension of deliveries. Deliveries have not resumed since.

In the late 1970s and 1980s, U.S. natural gas exports to Mexico remained fairly constant. Between the years 1977 and 1988 annual exports were consistently in the 1.5 Bcf to 4.5 Bcf range. Changing conditions within both Mexico and the United States, however, have combined to alter this trading relationship over the last several years.

Table 1
U.S./Mexican Natural Gas Trade

	U.S. Imports		U.S. Exports	
Year	Volumes (Bcf)	Price ($/Mcf)	Volumes (Bcf)	Price ($/Mcf)
1977	2.4	2.25	3.9	1.41
1978	0	-	4.0	1.65
1979	0	-	4.3	1.97
1980	102.4	4.41	3.9	2.47
1981	105	5.01	3.3	3.37
1982	94.8	5.02	1.7	5.17
1983	75.4	4.70	1.6	4.79
1984	51.5	4.49	1.9	4.48
1985	0	-	2.2	3.99
1986	0	-	1.9	3.49
1987	0	-	2.1	3.18
1988	0	-	2.3	3.21
1989	0	-	17.0	2.14
1990	0	-	15.7	1.88
1991	0	-	60.4	1.76
1992	0	-	96.0	1.90
Total 1977-1992	431.5	-	222.2	

Source: Department of Energy, *Natural Gas Monthly*, August 1993, pp. 10. 11.

Current U.S. Natural Gas Exports to Mexico

The increase in exports of U.S. natural gas to Mexico since 1991 was caused by a combination of factors in several different areas. One of the biggest reasons is the continuing problem with pollution that exists in the south of Mexico around Mexico City. To combat decreasing levels of air quality the Mexican government has ordered industries in the south to switch from burning fuel oil to natural gas. To meet this increased demand, gas supplies that previously were used in northern industries and Mexican gas reserves in the northern part of the country have been diverted to the south. Imports from the U.S. have made up much of the difference, with increasing amounts moving into the border towns of Reynosa, Matamoros and the northern industrial center of Monterrey.

The increase in consumption of U.S. gas in Mexico has also been aided by an increase in economic production in the northern part of Mexico. The maquilladora program, which allows parts to be shipped into Mexico without paying import duties has greatly expanded over the last several years. The resulting economic expansion in northern Mexico has increased the demand for electricity and for process and space heating, which has been accomplished by increased gas consumption.

Low U.S. wellhead prices have also been a factor for increased imports of U.S. gas by Mexico. Though Mexico has more than sufficient reserves to meet its demand, it is currently more economical to import U.S. supplies than to undertake the large capital expenditures that would be necessary to both produce its gas reserves and to construct a satisfactory transmission and distribution network. The low cost of U.S. supplies also allows Mexico to use natural gas to back out oil in industrial facilities so that the oil can be sold abroad to increase the country's foreign currency earnings.

Based on data provided by the Department of Energy's Energy Information Administration for the 1992 calendar year, natural gas exports to Mexico increased sixfold, from 15.7 Bcf in 1990 to 96.0 Bcf in 1992. This total is the largest annual amount of gas ever exported by the United States to any one country. To facilitate increased volumes, Pemex reversed the flow of the 48-inch pipeline that was originally constructed to transport 2 Bcfd from the Cactus processing plant in Chiapas north to Reynosa for export to the U.S. That pipeline now carries imported U.S. supplies south to power plants and industrial facilities near Mexico City.[2]

Natural gas that is exported to Mexico is purchased by Petroleos Mexicanos International, Pemex's international marketing unit, on the U.S. spot market. Table 2 shows the amount of gas exported since 1989 by point of exit. The bulk of the gas (94 percent in 1991) continues to flow into Mexico through Texas Eastern Transmission's pipeline at Hidalgo, Texas. Texas Eastern Transmission can transport 350 MMcfd through this pipeline. A large amount of this gas is used in industrial boilers in Monterrey.[3]

Table 2
U.S. Exports to Mexico by Export Point, 1989-92

Export Point	1989 (Bcf)	1990 (Bcf)	1991 (Bcf)	1992 (Bcf)
Hidalgo, TX	15.04	13.29	56.81	63.74
El Paso, TX	-	-	1.38	16.52
Naco, AZ	1.47	1.68	1.59	2.57
Eagle Pass, TX	.50	.69	.66	.68
Penitas, TX	-	-	0	12.46
TOTAL	17.01	15.66	60.44	95.97

Source: Department of Energy, *Natural Gas Monthly*, August 1993.

Gas began flowing in November 1991 into Mexico at El Paso, Texas. The gas is used to supply the electric generating facility operated by the Mexican electric utility Comision Federal de Electricidad (CFE) at Ciudad Juarez. The gas flows through El Paso Natural Gas to the export point operated by Western Gas Interstate. By March 1992, over 40 MMcfd was being transported.

Gas also flowed through two other export points in 1991. El Paso Natural Gas exported 1.6 Bcf in 1991 at Naco, Arizona. The gas is used in a copper refinery near Cananea and a Ford Motor assembly plant south of Hermosillo. Capacity of the export point is approximately 25 MMcfd.[4] 660 MMcf was exported through Valero Transmission's pipeline at Eagle Pass, Texas. The export point has an estimated capacity of 4 MMcfd.

Table 3 provides a list of companies that exported gas to Mexico over the last four years. Twenty-six of the companies that exported gas to Mexico in 1992 were not exporting gas in 1990.

Table 3
U.S. Exports to Mexico by Company
1989-1992

Exporter	Export Point	1989 (MMcf)	1990 (MMcf)	1991 (MMcf)	1992[1] (MMcf)
Access Energy	Hidalgo, TX	-	-	-	384
American Central Gas	Hidalgo, TX	-	-	461	-
Amoco Energy Trad	El Paso, TX	-	-	-	1,145
	Hidalgo, TX	-	-	1,400	10,043
	Naco, AZ	-	-	-	243
Anadarko Trading Co.	Hildago, Tx	-	-	-	1,411
Aquila Southwest Mkt.	Hidalgo, TX	-	-	-	8,608
Catex Energy	Hidalgo, TX	-	-	204	-
Chevron Nat. Gas	Hidalgo, TX	-	-	3,314	1,464
Clarion Marketing	Hidalgo, TX	-	-	2,761	-
Coastal Gas Mkt.	Hidalgo, TX	-	-	513	-
Conoco	Hidalgo, TX	-	-	4,346	7,431
Cornerstone Nat. Gas	Hidalgo, TX	-	330	1,001	-
El Paso Nat. Gas	Naco, AZ	1,469	1,444	416	1,757
Enron Gas Mkt.	El Paso, TX	-	-	-	297
	Hidalgo, TX	-	-	691	527
Libra Marketing	Hidalgo, TX	-	605	4,147	-
Marathon Oil	Hidalgo, TX	-	-	-	112
Markwest Hydrocarbon Partners	Hidalgo, TX	-	-	-	134
Meridian Oil Trans.	El Paso, Tx	-	-	-	2,324
MidCon Mkt.	Hidalgo, TX	-	-	177	-
Mobil Nat. Gas	El Paso, TX	-	-	417	4,726
	Hidalgo, TX	-	-	4,623	1,743
	Penitas, TX	-	-	-	3,159

Table 3 Cont'd
U.S. Exports to Mexico by Company
1989-1992

Exporter	Export Point	1989 (MMcf)	1990 (MMcf)	1991 (MMcf)	1992[1] (MMcf)
Natural Gas Clearinghouse	El Paso, TX	-	-	-	190
	Hidalgo, TX	-	-	-	1,033
	Naco, AZ	-	-	-	404
ORYX Gas Mktg. L.P.	Hidalgo, TX	-	-	-	260
PMI Commercio Internaional	Eagle Pass, TX	-	-	-	135
	El Paso. TX	-	-	-	2,896
	Hidalgo, TX	-	-	-	1,277
	Naco, AZ	-	-	-	404
	Penitas, TX	-	-	-	9,305
Phillips Gas Mkt.	Hidalgo, TX	-	-	-	250
Tenngasco Corp.	Hidalgo, TX	-	-	1,590	-
Texaco Gas Mkt.	Hidalgo, TX	-	-	4,936	7,375
	El Paso, TX	-	-	-	1,395
Texas Intl. Gas & Oil	Hidalgo, TX	-	-	313	218
TransAmerican Nat. Gas	Hidalgo, TX	-	-	1,952	-
Transco Energy Mkt.	Hidalgo, TX	-	-	1,674	747
Trinity Pipeline	El Paso, TX	-	-	653	2,644
	Hidalgo, TX	-	889	9,298	12,509
	Naco, AZ	-	232	825	-
Valero Industrial Gas	Eagle Pass, TX	495	689	657	547
	Hidalgo, TX	15,040	11,471	9,606	3,333
	El Paso, TX	-	-	-	687
	Naco, AZ	-	-	356	-
Victoria Gas	Hidalgo, TX	-	-	3,990	5,099
Yuma Gas	Hidalgo, TX	-	-	125	-

Source: Department of Energy, *Natural Gas Monthly*, August 1993.

Mexican Resource Base and Production

Natural gas in Mexico exists as a conventionally producible resource both associated with oil and in non-associated reservoirs. Gas and oil fields have been discovered along much of the Gulf of Mexico coastal plain with production occurring both onshore and offshore. A significant non-associated gas province, the Gulf of Sabinas basin, is located in the northeastern section of Mexico. Hydrocarbon resources have also been discovered in the western part of the country, near the Gulf of California.

Mexico's proved reserves and potential resources for gas and oil are very large, particularly when related to production levels. Between 1979 and 1982, Mexico's natural gas reserves increased dramatically, rising from 32 Tcf to over 75 Tcf. A large part of this gas was associated reserves, discovered during the surge in oil exploration in the late 1970s. Since 1982, however, gas reserve additions have stagnated as low oil prices and restricted capital spending on the oil sector have generally depressed the country's exploration activities.[5] The decline in international oil prices in the mid 1980s and the resultant decline in revenues forced Pemex, which by its constitution is banned from foreign equity investment, to drastically scale back its drilling program. Pemex drilled only 27 exploratory wells in 1987, compared to 70 in 1982. The number of development wells also decreased over this time, falling from 213 in 1983 to 53 in 1990. Drilling has slowly increased since, with 51 exploratory wells drilled in 1991.

Mexico currently has proved natural gas reserves of approximately 70.2 Tcf with a reserves to production ratio of 51. (See Table 4) This total is approximately 22 percent of Mexico's proven hydrocarbon reserves. Though no recent estimates of Mexico's hydrocarbon resource base are available, the existence of a large recoverable gas resource base (perhaps 200 Tcf) is possible.

Mexico's principal natural gas reserves are located in the Gulf of Campeche, the Reforma area in the Chiapas foothills located south and west of Villahermosa, the Chicontopec basin located farther north in the states of Veracruz and Puebla and in the Sabinas Gulf basin in the northeast part of the country. (See Figure 2) The significant hydrocarbon potential of southeastern Mexico is associated with a giant barrier reef formed along the ancient Yucatan platform during the Cretaceous-Jurassic period. This huge atoll-type reef extends from 200 miles west of the Reforma area out to the Gulf of Campeche and encircles the peninsula offshore, crossing the coast again through Belize.[6] The Campeche area covers more than 3,100 square miles in the southern part of the Gulf of Mexico. The fields discovered in the area have been found in highly faulted anticlinal or domal blocks. The reservoir rocks are formed from the uplifted, fractured perimeter of the Yucatan Platform. Productive reservoirs in the offshore area range in depth from 3,500 feet to 12,000 feet.[7]

The onshore Reforma area covers nearly 1,950 square miles in the states of Tabasco and Chiapas. Fields found in the area have been found in highly faulted, anticlinal or domal

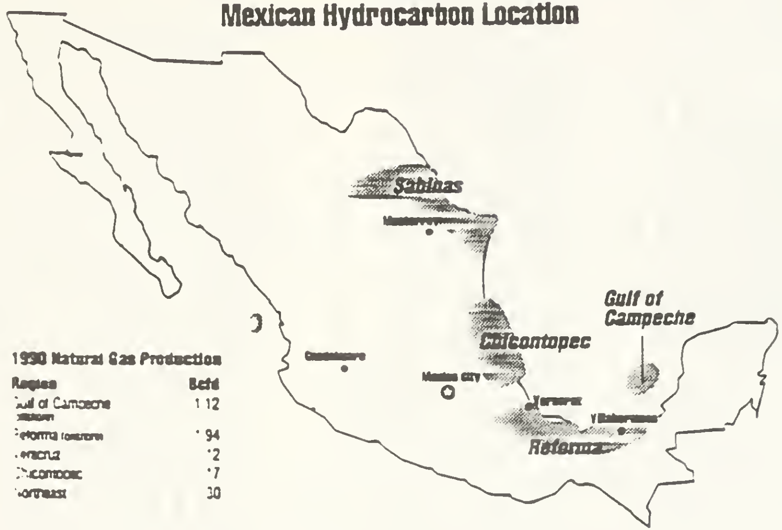
Table 4

Mexican Natural Gas Reserves, Production and Drilling Statistics

Year	(Bcf) Reserves	(Bcf) Production	Reserves-to-Production Ratio	Completed Development Wells		Completed Exploration Wells		Rigs Operating	Seismic Crews
				Gas	Oil	Total	Successful		
1979	32,000	1,065	30.0	N/A	N/A	51	21	193	N/A
1980	59,000	1,190.5	49.6	N/A	N/A	56	29	200	N/A
1981	64,500	1,485.4	43.4	N/A	N/A	65	23	205	N/A
1982	75,350	1,549.8	48.6	N/A	N/A	70	18	N/A	N/A
1983	76,998	1,479.5	52.0	32	182	65	17	187	N/A
1984	76,702	1,370.0	56.0	29	161	59	14	196	N/A
1985	76,526	1,315.5	58.2	26	145	69	19	196	32
1986	75,796	1,252.4	60.5	21	115	68	22	163	29
1987	74,881	1,277.4	58.6	0	60	27	8	143	23
1988	73,356	1,269.7	57.8	2	85	33	6	155	21
1989	72,744	1,303.7	55.8	6	51	42	14	103	17
1990	71,508	1,332.8	53.7	3	50	43	14	90	17
1991	70,244	1,372.8	51.2	14	90	51	25	10.7	N/A

SOURCES: Arthur Andersen/Cambridge Energy Research Associates, *Natural Gas Trends*, p. 80., Baker Hughes, Society of Exploration Geophysicists, Pemex.

FIGURE 2
Mexican Hydrocarbon Location


Sabinas
Monterrey
Chicontepec
Gulf of Campeche
Guadalajara
Mexico City
Veracruz
Villahermosa
Reforma
1990 Natural Gas Production
Region Bcfd
Gulf of Campeche offshore 1.12
Reforma onshore .94
Veracruz .12
Chicontepec .17
Northeast .30

blocks. The reservoir rocks are the edge of the carbonate platform that forms the Yucatan Peninsula. Good reservoir conditions exist only where uplift intense fracturing has occurred. Discoveries are located primarily in Middle Cretaceous limestone and dolomite. Productive reservoirs in the area (predominantly oil) are unique in that they are below 12,500 feet and unusually thick, with average net productive thickness ranging from 700 to 1,600 feet.[3] Approximately 87 percent of Mexico's marketed natural gas production and 74 percent of its reserves are located in the offshore and southeastern part of the country.

The Chicontopec basin covers over 4,300 square miles in the states of Puebla and Veracuz. The area is fairly new to exploration and proved reserves from the basin were not included in Pemex's total until 1978. Hydrocarbon accumulations in the area are sandstones interspersed with shales and silty shales. Average thickness of the productive sandstones is 3,280 feet and reaches over 6,000 feet towards the center of the field. All wells in the Chicontopec basin require hydraulic fracturing before they will flow.[9] Mexico's proved natural gas reserve total includes between 25-30 Tcf of "undeveloped" reserves in the Chicontopec basin. Hydrocarbons in this basin are not considered economic at today's prices due to the very low permeability (due to the high clay content) and high water content of the area.

The Sabinas basin covers 15,500 square miles in northeastern Mexico. Natural gas was first discovered in the area in 1977, making it a new area of exploration activity. Gas was found structurally associated with anticlines in dolomites and sandstones. Gas reservoirs were encountered at depths from 6,500 to 8,500 feet. Gas in this region is largely non-associated. Though Mexico's northern region experienced a manufacturing boom in the 1980s, Pemex concentrated its exploratory activity in the south where its oil prospects were greater. As a result, Mexico's northern natural gas reserves have decreased nearly 40 percent, from 12.46 Tcf in 1979 to 7.75 Tcf in 1989 and production in that time frame has fallen from 664 MMcfd to 298 MMcfd.[10]

1991 Exploration and Production

Mexican natural gas production totaled 1.33 Tcf in 1991, a slight decrease from 1990's total. As mentioned previously, much of the gas produced is associated with oil, and the decrease in oil exploration and production in the mid 1980s has had a direct effect on the development of Mexico's natural gas resource base. In 1991, the onshore Southern Zone accounted for 55 percent (just under 2 Bcfd) of Mexico's natural gas production. The offshore Campeche Sound area produced 1.2 Bcfd (32 percent) and the Northern Zone accounted for the remaining 13 percent, (473 MMcfd).[11] Pemex drilled 51 exploratory wells in 1991 of which 25 were productive, 17 oil, seven gas and condensate and one gas only. Twelve new field discoveries were recorded, six oil and six gas and condensate. Two gas discoveries were onshore in the Southern Zone, both Middle Cretaceous reservoirs. The Tizon find tested 11.37 MMcfd and the Catedral 4.86 MMcfd. In the northeast frontier district of the North region, Pemex had four Eocene and Paleocene discoveries that tested between 460 Mcfd and 3.5 MMcfd.[12]

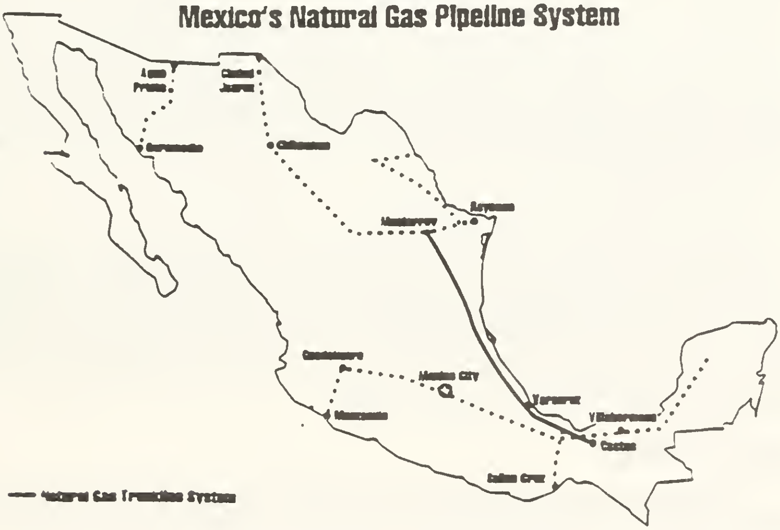
Mexican Pipelines

Natural gas transportation through Mexico is accomplished primarily by the National Gas System, a system of three large interconnected pipelines. (See Figure 3) The Ciudad

Pemex-Mexico-Guadalajara system, which consists of two 24-inch, one 48-inch and a 30-inch pipeline connects the Reforma-Campeche area to the main consuming area of the Central Plateau region around Mexico City and extends to the Pacific coast at Manzanillo. The Cactus-Monterrey line, also known as the *Natural Gas Trunkline System*, connects the main gas production zone along the Gulf coast to the industrial center of Monterrey. This 775-mile, 48-inch pipeline, completed in 1980 to service exports to the United States, links the entire gas distribution system of Mexico. The final Monterrey-Reynosa link of the Natural gas Trunkline System was never expanded from 22-inch pipe as proposed. The northern region of Mexico is served by the Reynosa-Monterrey-Torreon-Chihuahua line, which in 1981 was extended to the U.S. border at Ciudad Juarez/El Paso, Texas.[13]

Virtually all of Mexico's gas is sour, containing large amounts of hydrogen sulfide and carbon dioxide. All production except some non-associated gas in the northeast must be treated before it is consumed or enters the transportation network. Mexico has 15 gas processing plants. Five are gas sweetening plants that remove large amounts of hydrogen sulfide and carbon dioxide. The rest of the plants are cryogenic and absorption plants that extract ethane and heavier hydrocarbons.

FIGURE 3
Mexico's Natural Gas Pipeline System


Agua Prieta
Ciudad Juarez
Hermosillo
Chihuahua
Reynosa
Monterrey
Guadalajara
Mexico City
Manzanillo
Veracruz
Villahermosa
Cactus
Salina Cruz
Natural Gas Trunkline System

Mexican Consumption

Between 1979 and 1988 Mexican natural gas consumption increased 25 percent to over 1 Tcf per year. Large increases were recorded in the chemical/petrochemical sector and in gas consumed in energy resource production. Residential natural gas consumption represents only 3 percent of total nationwide consumption. One of the fastest growing areas of demand is for electric power generation. Seven fossil fuel power plants have recently converted from high sulfur fuel oil to natural gas. Mexican officials expect demand for electric power to increase by 5 percent per year through 2000.[14] This will require as much as 8,000 MW of new generating capacity, representing a large future market for natural gas.

Environmental Problems

The geographic location of Mexico City, bordered on all sides by mountains and located at a high altitude, combined with a population of nearly 20 million people provides an ideal site for serious pollution problems. The Salinas administration has been extremely active in attempting to control urban and industrial pollution. In 1991, more than 200 businesses throughout Mexico were closed for environmental violations. They included the permanent closure of the March 18 Refinery in Mexico City. On March 17, 1992, ozone pollution in Mexico City set a record high, forcing authorities to instigate such unprecedented anti-smog measures as cancelling all schools below university level, barring drivers from operating their cars and forcing industries to restrict their output.[15] In a move to combat its pollution problems, the Mexican government announced plans on February 11, 1992 to convert 450,000 public transportation and cargo vehicles to natural gas over the next four years. It is estimated that public transportation accounts for 25 percent of Mexico City's air pollution. The Mexican government will set up conversion sites and provide low-interest loans to private vehicle owners, who own most of Mexico City's public transit vehicles.[16] All fossil fuel power plants in Mexico City will also be switched to natural gas from high sulfur fuel oil.

Proposed U.S. Pipeline Projects to Mexico

Over the last several years the majority of gas exported to Mexico has been transported by Texas Eastern Transmission's pipeline near McAllen, Texas. At year-end 1991, the Department of Energy estimated the combined pipeline capacity at the four export points into Mexico at approximately 550 MMcfd. To meet the forecasts of increased demand for U.S. natural gas within Mexico, a host of new pipeline projects designed to increase access to Mexico have been proposed. (See Figure 4) These new facilities could add as much as 2.5 Bcfd of new export capacity by 1995.

Valero Transmission

Valero Transmission has constructed a 3.5 mile, 24-inch pipeline at the international border near McAllen, Texas and Reynosa, Mexico. The $4 million pipeline connects the southern portion of Valero's Texas intrastate system at Penitas to Pemex's 42-inch northern pipeline, which delivers gas to the Mexican cities of Reynosa and Monterrey. The pipeline was constructed under the Rio Grande River and will have a capacity of 400 MMcfd when fully operational. 125 MMcfd began flowing through the new pipeline on August 1, 1992. Valero hopes to be transporting 200 MMcfd by the end of 1992.

Houston Pipe Line

Houston Pipe Line, an Enron Corp. subsidiary, has proposed a new pipeline interconnect into Mexico that will allow it to directly access the growing Mexican market. The proposal calls for the construction of 1,000 feet of pipeline underneath the Rio Grande River near Mission, Texas to interconnect with Pemex's 42-inch pipeline near Reynosa and also 22.6 miles of 36-inch pipeline that will connect Houston Pipe Line's South Texas system to the international border. The expansion will be designed to deliver 600 MMcfd.

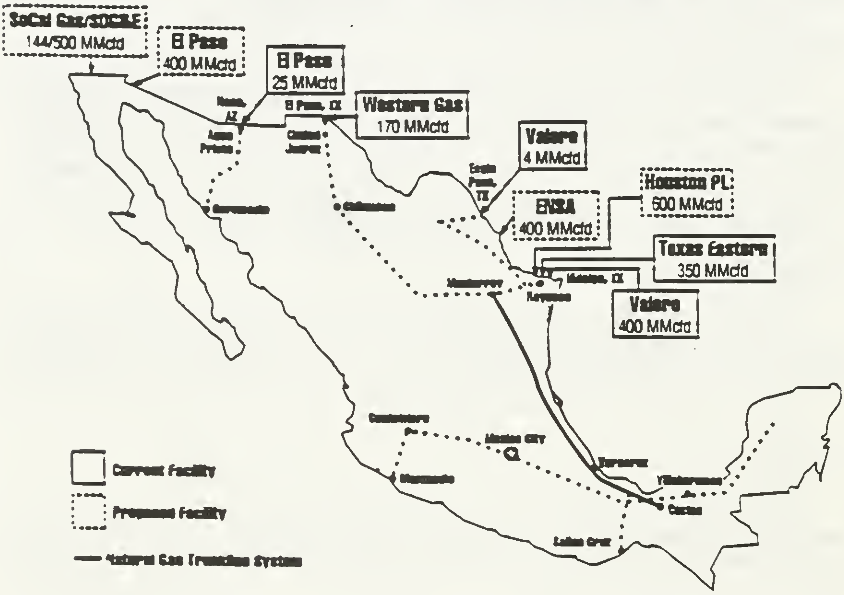
ENSA Corp. Laredo Pipeline

ENSA Corp. has proposed to construct a 250-foot, 36-inch pipeline that would interconnect with Pemex under the Rio Grande River. The pipeline would export 500 MMcfd and have possible interconnections to Valero Transmission, United Texas Transmission and Delhi Gas Pipeline in the Laredo area.

Western Gas Interstate

Western Gas Interstate, a subsidiary of Southern Union, received FERC approval in late 1991 to construct facilities near El Paso, Texas to export gas to Ciudad Juarez, Mexico. The facilities constructed connect two separate export points already constructed but not in service. Deliveries of 30 MMcfd began in December 1991. Western transports the gas for delivery to Gas Natural de Juarez S.A. and Juarez Gas Co. S.A. de C.V. Supplies are delivered to Western through El Paso Natural Gas. The gas is used to replace fuel oil in the Samalayuca electric generating facility located 30 miles south of Ciudad Juarez. The switch to natural gas is expected to replace 5,000 barrels per day of residual fuel oil.[17] El Paso expects deliveries to increase to the plant's capacity of 70 MMcfd. The plant is owned by Commission Federal de Electricidad, the Mexican government electric utility.

FIGURE 4
Current and Proposed Export Pipelines to Mexico


SoCal Gas/SDG&E
144/500 MMcfd
El Paso
400 MMcfd
El Paso
25 MMcfd
Naco, AZ
Agua Prieta
El Paso, TX
Ciudad Juarez
Western Gas
170 MMcfd
Valero
4 MMcfd
Eagle Pass, TX
ENSA
400 MMcfd
Houston PL
600 MMcfd
Texas Eastern
350 MMcfd
Hidalgo, TX
Valero
400 MMcfd
Hermosillo
Chihuahua
Monterrey
Reynosa
Guadalajara
Mexico City
Manzanillo
Veracruz
Villahermosa
Cactus
Salina Cruz
Current Facility
Proposed Facility
Natural Gas Transmission System

El Paso Natural Gas

El Paso Natural Gas, whose southern pipeline system essentially parallels the Mexican border from central Texas to California, has two export projects designed to greatly increase its delivery capacity to Mexico. El Paso plans to construct the Yuma Lateral project, which will consist of 21 miles of 36-inch pipeline looping and 93.5 miles of new 30-inch pipeline that will extend south from El Paso's southern pipeline system to the international border near San Luis Rio Colorado, Mexico. 12,150 horsepower of new compression will also be added to the Wenden compressor station. The 400 MMcfd expansion will interconnect with a pipeline to be constructed by Pemex that will deliver gas to the Baja California Norte area, introduce gas service to the towns of Mexicali, Tecate, Tijuana and Rosarito and also supply the planned Tri-National Power Project. Cost of the El Paso expansion is estimated at $91.9 million and the project should be in-service by the third quarter of 1994.[18] The Tri-National Power Project will repower and expand an existing 606 MW electric power plant located at Rosarito. El Paso received initial requests for this expansion from 14 shippers during an open season totalling 2.1 Bcfd of new capacity.

El Paso Natural Gas' second project would involve deliveries to supply the proposed Samalayuca II electric generating facility near Ciudad Juarez. Two groups currently are bidding to develop the project. One includes affiliates of Transco Energy and Duke Power and the other a group consisting of Bechtel, General Electric, El Paso Natural Gas, Grupo Ica and Coastal Corp. The 350-400 MW plant would be constructed next to the existing 320 MW plant that was recently converted to run on natural gas. The Samalayuca II plant is expected to consume 110 MMcfd.[19] A 25-mile pipeline would be constructed by Pemex to deliver gas from the border. The project is especially significant since it will be the first large capital venture in Mexico not guaranteed by government loans. The facilities will be constructed under a build-lease-transfer agreement under which CFE will lease the plant for ten years after it is constructed and then purchase the U.S. interest and begin ownership.

Southern California Gas and San Diego Gas & Electric

As a way to utilize the large amounts of natural gas entering California through the addition of new pipeline capacity to the state, Southern California Gas and San Diego Gas & Electric have considered two possible projects to supply gas to a Mexican electric power generating station in Baja California Norte. Option one would entail constructing a two-mile pipeline extension from an existing San Diego Gas & Electric line near the Otay Mesa area of San Diego County to the border near Tijuana to interconnect with an 18-mile pipeline to be constructed by Pemex that would deliver 24 MMcfd in the first year, increasing to 144 MMcfd in the second year. Under this proposal gas could flow within one year after an agreement was signed. The second option calls for long-term volumes of up to 500 MMcfd with additional compression required. This proposal could be in-service within three years. Under this option volumes could also be used for other purposes such as bringing new natural gas service to cities in the area.

Under the two scenarios proposed, Pemex would purchase supplies itself in the U.S. and the two California distributors would serve as transporters. The power plant currently generates 620 MW by using 3% sulfur residual fuel oil in its six boilers. The conversions should begin in early 1993. The plant is already electrically connected to the San Diego Gas & Electric system.[20]

Pemex/North American Free Trade Agreement

Pemex, Mexico's national energy company, was created in 1938 by transforming foreign private companies operating in Mexico into a state enterprise. Pemex has exclusive control over all aspects of the country's hydrocarbon industry. Over the next forty years after formation, the company's goals were to provide energy self-sufficiency to Mexico through low energy prices. With the discovery of large amounts of petroleum in 1976, Pemex became an energy exporter and a major player in world energy affairs. Despite its recent growth, Pemex has for many years represented a symbol of pride, nationalism and economic independence to most Mexicans.

U.S. suppliers currently sell natural gas directly to Pemex, who transports the gas and resells it to end users. Pemex is the only legally authorized entity allowed to sell gas to consumers in Mexico. Pemex purchases the gas from the United States based on border delivery pricing.

Over the last several years, Pemex has been slowly showing signs of opening up to foreign investment. This has been most evident in the petrochemcial sector. Advances in other sectors have been slow, however, in April 1991, Triton International was awarded a service contract to drill an 18,000 foot developmental well in Campeche Sound. The exploration was financed with a portion of US Export-Import Bank credit guarantees and was the first turn-key drilling contract signed with a foreign company.[21]

Pemex announced recently that it is restructuring into four new subsidiaries: Pemex Exploration and Production, Pemex Refining, Pemex Gas and Basic Petrochemicals and Pemex Secondary Chemicals. According to Pemex, by dividing the gas and oil sectors and decentralizing the company's main operations, Pemex will be better able to focus on economic, value-oriented objectives instead of solely volumetric goals. The new companies should also improve Pemex's consumer and employee relations and allow it to satisfy more environmental and safety regulations. Negative events such as the recent explosion in Guadalajara attributed to gasoline fumes in the sewer system contributed to Pemex moving towards these actions.[22]

The North American Free Trade Agreement between the United States, Canada and Mexico was signed in August 1992. Though the agreement does not allow for direct foreign investment in Mexico's energy resources, the Bush administration describes it as a way to take advantage of future energy reforms. A Bush administration summary of the agreement highlighted several areas of progress in the energy sector:

- Providing opportunities for U.S. service and supply companies to sell to Pemex and Commission Federal de Electricidad;
- Allowing private ownership and operation of electric generating facilities for cogeneration and independent power plants;
- Providing performance bonuses in service contracts, primarily for drillers who make discoveries;
- Permitting U.S. companies to negotiate directly with Mexican buyers of natural gas and electricity;
- Reinforcing recent reforms in Mexico and opening Pemex to more competitive business practices.

Future Outlook

Prospects for increased exports of natural gas to Mexico throughout the rest of this decade appear good. Pemex sees Mexican gas demand growing at an annual rate of 7 to 10 percent through 2000.[23] Natural gas consumption in the power generation sector is expected to increase rapidly, as the Commission Federal de Electricidad meets new power demand with gas turbines that can be constructed quickly and at lower costs than other fuel sources. Vehicular use of natural gas should also increase greatly.

Mexico's Ministry for Energy, Mines and State Industry has recognized the importance of natural gas in Mexico in its five year (1990-94) national plan for modernizing the energy sector. Elements of the new plan include:

- Modernizing the energy price structure by reducing hydrocarbon subsidies on domestic sales;
- Spreading the fiscal burden of resource development across all fuels by reducing some of oil's current preferential treatment;
- Targeting increased dry gas production of 300-400 MMcfd by 1994;
- Establishing an E & P program focused on natural gas;
- Increasing use of natural gas in "environmentally high priority" activities such as electric power generation; and
- Reducing Pemex's fuel use of natural gas, especially within the petrochemical industry, thus making more gas available for power generation.

It is possible that the window of opportunity for exporting natural gas to Mexico will only stay open for a short period of time, however. Several reports predict that after 2000 Mexico will resume exporting natural gas to the United States. The Energy Information Administration predicts U.S. gas production will peak in the early 2000s and the U.S. will be importing as much as 90 Bcf per year of Mexican gas by 2010. Though Mexican end-users are benefiting by the low cost of purchasing U.S. natural gas, the increase in imports means that hard currency dollars are leaving the country.

Randy Wu, El Paso Natural Gas Vice President of New Project Development, reports that Mexico's power plant operators are looking for 20-year contracts. He believes this is a good indication that the Mexican market will continue to be strong because the decision to build a power plant revolves around securing a reliable fuel supply. Wu remarks, "It would be one thing if the power plants being planned could burn other fuels or if Mexico was planning to dedicate its own gas reserves to fueling those power plants. But the situation developing is a number of power plants are going to be built close to the border and will be fed with gas from the U.S. and potentially Canada. A power generator doesn't want to build a plant that runs on gas for ten years, then find out in year eleven that the gas is no longer available."[24]

El Paso estimates the potential border market alone for natural gas in Mexico will reach 1.78 Bcfd by 2000. 80 MMcfd would go for residential use, 100 MMcfd for industry, 600 MMcfd for conversions of electric plants to natural gas and 1 Bcfd for new natural gas-fired electric generating facilities.[25]

Precisely what will happen over the next twenty years is unknown. Increases in Mexican natural gas demand and the extent to which Pemex invests to develop its gas resources will greatly determine in what direction gas flows across the border.

Footnotes

[1] American Gas Association, *The Gas Energy Supply Outlook 1987-2010*, October 1987, p. 32.
[2] *Natural Gas Week*, June 22, 1992, p. 6.
[3] *Oil & Gas Journal*, April 6, 1992, p. 22.
[4] *Oil & Gas Journal*, April 6, 1992, p. 22.
[5] Arthur Andersen/Cambridge Energy Research Associates, *Natural Gas Trends*, 1991, p. 81.
[6] *Mexico's Petroleum Sector*, George Baker, 1984, p. 24.
[7] Rand Corp., *Mexico's Petroleum and U.S. Policy: Implications for the 1980s*, June 1980. pp. 14-17.
[8] Rand Corp., *Mexico's Petroleum and U.S. Policy: Implications for the 1980s*, June 1980, pp. 9-14.
[9] *Mexico's Petroleum Sector*, George Baker, 1984, pp. 27-28.
[10] *The Oil Daily*, February 25, 1992, p. B-8.
[11] *Oil Daily*, May 4, 1992, p. 4.
[12] *Ibid.*
[13] *Mexico's Petroleum Sector*, George Baker, 1984, p.48.
[14] *Oil & Gas Journal*, April 6, 1992, p. 22.
[15] *The Washington Post*, March 17, 1992.
[16] *The Washington Report*, February 14, 1992, p. 7.
[17] *Oil & Gas Journal*, December 9, 1991, p. 36.
[18] *Natural Gas Intelligence*, July 13, 1992, p. 1.
[19] *Natural Gas Intelligence*, March 16, 1992, p.4-5.
[20] *Natural Gas Intelligence*, February 3, 1992, p. 5.
[21] *Petroleum Economist*, October 1991, p. 7.
[22] *Natural Gas Week*, June 29, 1992, p. 21.
[23] *Oil Daily*, April 14, 1992, p. 3.
[24] *Oil & Gas Journal*, April 6, 1992, p. 26.
[25] *Natural Gas Week*, July 13, 1992, p. 3.

STATEMENT OF THE AMERICAN WIRE PRODUCERS ASSOCIATION

On behalf of the American Wire Producers Association (the "Association"), I respectfully submit our views on the North American Free Trade Agreement ("NAFTA") and supplemental agreements of the NAFTA.

The Association supports the NAFTA and endorses the free and fair exchange of goods between the United States and all of our trading partners, including Canada and Mexico.

The American Wire Producers Association is a national trade organization which represents American manufacturers of carbon, alloy, and stainless steel wire and wire products. Our membership also includes American and Canadian integrated and minimill producers of steel wire rod, Canadian wire drawers, and suppliers of machinery and other equipment to our industry. Member companies of the Association operate more than 150 plants in 35 states, and they employ over 30,000 American workers. Our members are efficient producers with modern facilities and a productive labor force. They supply more than 70 percent of the domestic market for Carbon and Stainless steel wire and wire products, including round and flat wire, barbed wire, welded wire fabric, wire rope and strand, nails, staples, chain, coat hangers, concrete reinforcing mesh, and chain-link fencing.

The Association is concerned that the goals of the NAFTA may be undermined by certain imbalances in the current trade relations between the United States and Mexico. We respectfully urge that these imbalances be promptly addressed in accordance with the provisions of the NAFTA and the implementing legislation approved by the Congress.

First, the NAFTA provides for the progressive elimination of all tariffs on steel wire, wire products, and wire rod which qualify as North American products under the NAFTA's rules of origin. Duties on steel wire, some wire products and wire rod will be phased out over a ten-year period in equal annual stages. However, the U.S. duties on three major categories of wire products will be eliminated immediately: nails, stainless and other wire strand, and grill, netting and fencing. The Mexican duties for U.S. exports of these same products will be reduced over a ten-year period. Furthermore, the Mexican duties are already significantly higher than the U.S. duties. The Mexican rates are generally between 10.0 and 15.0 percent *ad valorem,* whereas the corresponding American rates are between 0.0 and 5.6 percent. These differentials are significant to an industry whose markets are extremely sensitive to even small variations in price. Article 302(3) of the NAFTA provides for consultations to accelerate the elimination of duties set out in the existing schedules, and we respectfully request that the Congress urge the President to invoke this provision to achieve an accelerated and equitable reduction of Mexican duty rates on U.S. wire and wire products.

Second, we understand that Mexican authorities impose a number of additional fees and charges with respect to the importation of steel wire and wire products. For example, Mexico assesses a customs processing fee ("*derechos de trámite aduanero*") on imported products. This fee further distorts the price differential between Mexican and American products, and it should be eliminated as soon as possible and no later than the deadline of June 30, 1999, as established by Annex 311.2 to the NAFTA.

Third, Chapter 4 of the NAFTA contains rules of origin for steel wire, wire products and wire rod which ensure the North American content of these products. The AWPA has supported these rules of origin since they were incorporated in the U.S.-Canada Free Trade Agreement. These rules must be strictly enforced in order to prevent circumvention of the NAFTA by non-North American imports.

Fourth, our members are concerned that the Mexican industry may be targeting American markets for higher-valued wire and wire products, including mattress spring units, galvanized wire, poultry and stucco netting, and other woven and welded wire products. It is noted that the original voluntary restraint arrangement on steel products was amended in order to contain the surge of fencing and mesh products from Mexico, including steel fence panels, steel wire fabric, and welded wire mesh for concrete reinforcement. Therefore, we endorse the emergency action provisions of Chapter 8 of the NAFTA and urge that the United States invoke these provisions in the event of increased imports of such products if the NAFTA is ratified.

Fifth, Article 1902 of the NAFTA preserves the right of each country to retain its antidumping and countervailing duty laws. In addition, we understand that Mexico has agreed to conform its trade laws more closely to those of the United States, particularly in the areas of procedure, predictability and transparency. The members of the Association endorse these objectives of the NAFTA, which will promote the free and fair exchange of goods between our countries.

Sixth, the NAFTA and especially its supplemental agreements seek to improve the environmental and labor standards in the Mexican economy. We urge the United States to take all appropriate action pursuant to the agreements to ensure the implementation of these standards.

The Association is grateful to the Chairman and the other members of the Subcommittee for their consideration of these comments.

STATEMENT OF THE ASOCIACION MEXICANA DE PRODUCTORES DE RECUBRIMIENTOS CERAMICOS

This statement is being filed on behalf of the Asociacion Mexicana de Productores de Recubrimientos Ceramicos, A.C. (AMPREC), an association of members of the Mexican ceramic tile industry AMPREC represents all of the leading Mexican producers of ceramic tile, who in turn represent nearly 100 percent of total ceramic tile production in Mexico.[1]

AMPREC fully supports the passage and enactment of the NAFTA implementing legislation. The NAFTA provides an opportunity to create an economic alliance which will form one of the largest marketplaces in the world. NAFTA is expected to create a market with more than 360 million consumers and producers, and an economy valued at greater than $6 trillion. This marketplace will provide tremendous new opportunities for U.S. businesses, and particularly for those seeking to market their goods in Mexico. Moreover, due to the trade benefits conferred by the Agreement, the NAFTA will permit each of the signatory countries to maximize its own competitive advantages and to share in those of its neighbors.

The reforms undertaken by Mexico since its succession to the GATT on August 24, 1986 have led to a tremendous expansion of trade with the United States, with U.S. exporters being the primary beneficiaries of the trade and investment liberalization. Over the past four years, bilateral trade between Mexico and the United States has increased by 75 percent. Today, Mexico is the United States' third largest trading partner, and the United States is Mexico's largest trading partner. It is important to note that this increase in trade helped both countries. For example, U.S. exports to Mexico increased by 21 percent during 1988 and 1989, while imports from Mexico grew at a lower rate of 17 percent during the same period. Given the expansion of trade with Mexico that has resulted from only the trade liberalization undertaken thus far, the far more ambitious actions called for under the NAFTA will undoubtedly lead to an even more extensive growth in trade between the countries, and particularly in U.S. exports to Mexico.

AMPREC also strongly believes that there is certain to be a net gain in U.S. employment, investment and consumption under the NAFTA. Currently, more than 7.5 million U.S. jobs are related to product exports, and of those, 2.1 million are attributable to exports to Canada and Mexico. Over 600,000 Americans are now employed due to U.S. exports to Mexico, and this number should increase to one million by 1995. More than 1.5 million Americans are already employed due to U.S. exports to Canada. Clearly, as U.S. exports to these countries grow under the NAFTA, as they are certain to do, the United States will gain additional jobs related to these exports.

AMPREC was disappointed, however, in the tariff reduction schedule negotiated for ceramic tile. U.S. tariffs on ceramic tile are unusually high (19 and 20 percent), and these tariffs are not necessary to protect the U.S. industry from import competition, and certainly not from Mexican import competition.

Imports from Mexico have never posed a problem for the U.S. ceramic tile industry. In fact, in a recent U.S. government study of the ceramic tile industry, the Mexican tile industry was not discussed at any length—only Italy, Spain, Brazil, Japan, and Germany (and the EC generally), were discussed in any detail. *See Industry & Trade Summary—Ceramic Floor and Wall Tiles,* USITC Pub. 2504 (MM–2) (November 1992). Those five countries are, in order of succession, the leading producers in the world. The United States ranks sixth after these. While Mexico is the third largest source of U.S. imports of ceramic tile into the United States, Mexican imports fall far short of imports from Italy and Spain, which overwhelmingly dominate the U.S. import market.

Given Mexico's small share of the U.S. market, the relatively small size of its ceramic tile industry when compared with those of the leading world producers, and data showing the relatively stable market share of U.S. producers even in the face of tariff reductions, there is no reason to believe that significantly reducing the tariff on ceramic tile from Mexico would in any way threaten the U.S. industry. We therefore hope that the United States will agree to accelerating the reduction of ceramic tile tariffs once the NAFTA becomes effective.

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[1] The members of AMPREC are Fabricas Orion, S.A., Lamosa, S.A., Vitromex, S.A., Porcelanite, S.A., Interceramic, S.A., Nacesa, S.A., Ceramica Regiomontana, S.A. and Ceramica Santa Julia, S.A.

Once again, AMPREC strongly supports the North American Free Trade Agreement, and urges the members of the Senate to support passage of the Agreement.[2]

STATEMENT OF THE CALIFORNIA CUT FLOWER COMMISSION AND FLORAL TRADE COUNCIL

I. INTRODUCTION

These comments are submitted on behalf of the California Cut Flower Commission and the Floral Trade Council in response to Senator Daniel Patrick Moynihan's September 24, 1993, request for written public comments concerning the North American Free Trade Agreement (NAFTA). The California Cut Flower Commission is a flower promotion and research board and is located at 2339 Gold Meadow Way, Suite 101, Gold River, California, 95670 (telephone (916) 852-5166). The Floral Trade Council is a U.S. trade association, the majority of whose members are domestic producers or wholesalers of fresh cut flowers in the United States, and is located at 1152 Haslett Road, Haslett, Michigan 48840 (telephone (517) 339-9765).

California has approximately 600 family-operated growers producing a wholesale revenue of $400 million annually and produces 60 percent of U.S. floral products. CCFC Statement to Subcommittee on Trade, Impact of NAFTA on U.S. and California Cut Flower and Foliage Industry 2 (April 5, 1993); G. Chan, CCFC Position Statement on the NAFTA at 1. The average grower has between 10 to 75 employees, but the number can reach to 150 year-round employees. NAFTA is expected to affect California and other southwestern states to a greater degree than growers in other parts of the country due to their proximity to Mexico. Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement, Inv. No. 332-337, USITC Pub. 2596, at 30-3 (Jan. 1993). These comments are, in part, a response to the September 2nd statement of Ambassador Kantor that the NAFTA "levels the playing field for U.S. companies and workers." Statement of Ambassador Mickey Kantor, USTR on NAFTA and The Perot-Choate Book 2 (Sept. 2, 1993). Whatever NAFTA may do for other industries, NAFTA does not "level the playing field" for the U.S. fresh cut flower grower.

II. NAFTA'S IMPLEMENTING LEGISLATION SHOULD REFLECT THE GOAL OF ESTABLISHING A MORE LEVEL PLAYING FIELD FOR THE FRESH CUT FLOWER INDUSTRY

1. Wage Rates

The adverse effect of foreign imports on the U.S. fresh cut flower industry is due, in part, to the reduced costs of production of Mexican growers. Because flower production is labor intensive, the disparity in labor rates in Mexico and the United States will provide Mexico with a distinct artificial competitive advantage in the absence of duties. Competitive Conditions In the U.S. and World Markets for Fresh Cut Roses, Inv. No. 332-263, USITC Pub. 2178, at 5-7 (April 1989). "Labor is the principal input in the production of fresh cut flowers, and is estimated to account for 30 to 40 percent of production costs." Certain Fresh Cut Flowers from Canada, Chile, Colombia, Costa Rica, Ecuador, Israel, and the Netherlands, Inv. Nos. 701-TA-275-78 (Final), USITC Pub. 1956, at A-12 (March 1987).

The U.S. grower is faced with some of the highest production costs in the world. CCFC, U.S. - Mexico Trade Negotiations 2 (May 1991). Total agricultural labor costs in California, for example, have been estimated to be 20 times higher than those in Mexico. CCFC Statement to Subcommittee on Trade, Impact of NAFTA on U.S. and California Cut Flower and Foliage Industry 2 (April 5, 1993). In 1992, greenhouse workers in California earned from $6.50 to $10.00 per hour plus benefits compared to less than $1.00 an hour in Mexico. S. Robitaille, Flower Growers May Move Roots South from Calif. Under Trade Deal, Journal of Commerce at 4 (Aug. 27, 1992); R. Rothstein, NAFTA's A Farce So Far, The Sacramento Bee, Forum 2 (Sept. 26, 1993) (minimum wage in Mexico is $4.21 per day). The wage rate differential between Mexico and the United States increases the cost of labor for the U.S. grower by at least 550 percent.

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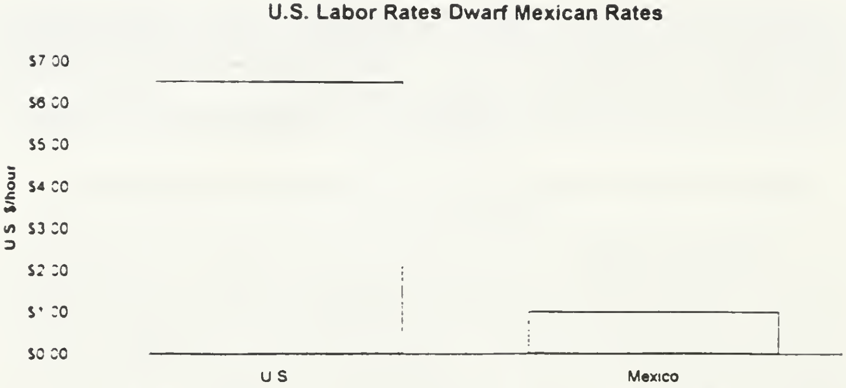
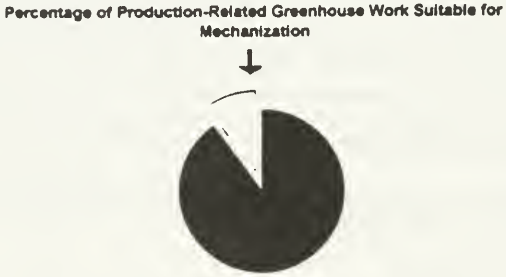
[2] BROWNSTEIN ZEIDMAN AND LORE, 1401 New York Avenue, N.W., Washington, D.C. 20005 is transmitting this document on behalf of our client, the Asociacion Mexicana de Productores de Recubrimientos Ceramicos, A.C. (AMPREC). Since AMPREC is a foreign organization, Brownstein Zeidman and Lore is registered with the Department of Justice under 22 U.S.C. §§611, *et seq.* as an agent of such foreign principal. Copies of this document are being filed with the Department of Justice and copies of Brownstein Zeidman and Lore's registration is available for public inspection at the Department of Justice. Registration does not indicate approval by the United States Government.



President Salinas' program to raise real wages of Mexico's lowest-paid workers more than 10 percent over the next year will have a minimal impact on this imbalance. T. Robberson, Mexico Seeks To Increase Worker Pay, Wash. Post A10 (Oct. 4, 1993).

The competitive advantage of Mexican growers due to higher U.S. wages, however, is not offset by increased U.S. productivity. As much as 90 percent of all production-related greenhouse work is not suitable for mechanization: planting, caging, disbudding, grading (sorting), string tying, harvesting, and packaging.



In addition to lower wages, Mexican employers do not pay workers' compensation or unemployment insurance and have lower business taxes. S. Robitaille, supra; see USITC Pub 2178, at 5-7; U.S. Congress, Office of Technology Assessment, **US-Mexico Trade: Pulling Together or Pulling Apart?** 78 (Oct. 1992).

With respect to the North American Agreement on Labor Cooperation, therefore, the U.S. fresh cut flower growers support implementing legislation that would further define the U.S. representative's functions on the Commission. The Agreement provides that the Secretariat "shall periodically prepare background reports setting out publicly available information supplied by each party on," among other things, "average wages and labor productivity." NAALC at art. 14 (Sept. 13, 1993). We request that the Mexican and U.S. wage rates and labor productivity in the fresh cut flower industry be targeted for study in order to reduce the gap in wage rates and benefits.

2. Pesticides

More importantly, Congress should address the issue of pesticide use in Mexican flower production. Whether Mexican and U.S. pesticide regulation are sufficiently comparable remains an issue. See De La Garza, Panetta Call for Pesticide Committee in NAFTA A-14 (BNA/DER Oct. 7, 1992). California growers are subject to the most restrictive environmental regulations in the country and, therefore, have the highest pesticide use-related costs. CCFC Statement to Subcommittee on Trade, Impact of NAFTA on U.S. and California Cut Flower and Foliage Industry 2 (April 5, 1993). Of approximately 20,000 chemicals approved in the United States, half that number are approved in California.

Costs associated with the use of pesticides in the United States account for approximately 6 to 8 percent of total production costs, including costs of materials, licensing, training, regulatory compliance measures, labor, and recordkeeping. Hence, the additional costs of pesticide use to the U.S. grower are significant: roughly equivalent to the U.S. duty on Mexican roses of 8 percent. Recently, U.S. cut flower growers explained that compliance with the U.S. Environmental Protection Agency's proposed worker protection standards prohibiting entry into greenhouses after spraying for up to two days would result in an estimated crop loss of 14 percent of annual sales or, on average, a loss of more than $35,000 per year per acre. Exception to Worker Protection Standard Early Entry Prohibition for Hand Labor Tasks Performed on Cut Flowers and Cut Ferns, 57 Fed. Reg. 38,147-48, 38,175 (EPA 1992) (Proposed Exception to Rule, Request for Comment); see Exception to Worker Protection Standard Early Entry Prohibition for Hand Labor Tasks Performed on Cut Flowers and Cut Ferns, 57 Fed. Reg. 54,465 (EPA 1992) (Reopening of Comment Period).

Mexican flower growers' use of more effective, yet extremely toxic, pesticides reduces Mexican costs of production. For example, pesticides such as aldicarb (or "Temik") are available to Mexican growers but not to U.S. growers. The result is the inability of the U.S. fresh cut flower grower to control certain pests, such as nematodes (unsegmented worms), comparatively increasing U.S. production costs compared to Mexican costs.

The following table illustrates the numerous differences between pesticide use in Mexico and the United States. Of eighty-seven pesticides approved in Mexico, twenty-four are targeted by the U.S. Environmental Protection Agency (of which twenty are already restricted), seven are not marketed, and four are not longer sold in the United States.

ILLUSTRATIVE LIST OF CHEMICALS

CHEMICALS/INSECTICIDES	APPROVED* IN MEXICO	APPROVED** IN USA	TARGET*** OF EPA
Acephate	X	X	X
Aldicarb	X	cotton only	X High Priority
Alfacipermetrina (Alfamethrin)	X	not marketed	
Alfametrina (Alfamethrin)	X	not marketed	
Azinofos-Methyl (Guthion)	X	restricted use	X High Priority
Beta-Cyfluthrin	X	not marketed	
Carbofuran (Furadan)	X	restricted use	X
Clordano (Chlordane)	X	temporary halt	temporary halt
Clorpyrifos Etil (Dursban Lorsban)	X	X	X
Clorpyrifos Metil (Reldan)	X	X	X
Cumafos	X	not marketed	
Cyromazine	X	restricted use	
Diazinon	X	X	X
Dichlorvos (DDVP)	X	X	X
Dicrotofos (Dicrotophos)	X	restricted use	X
Diflubenzuron	X	restricted use	
Dimetoato (Dimethoate)	X	X	X
Disulfoton (Di-Syston)	X	restricted use	X
Endosulfan (Thiodan)	X	not marketed	
Fention (Fenthion)	X	X	X
Fentoato	X	unclear	
Flumetrina	X	unclear	
Fonofos (Dyfonate)	X	restricted use	X
Fosfamidon (Dimethoate)	X	X	X
Foxim (Phoxim) [Baythion]	X	not marketed	
Isofenfos (Discus) [Amaze]	X	restricted use	X
Lambda-cyalotrina (Lambda-cyhalothrin)	X	restricted use	
Lindano (Lindane)	X	restricted use	
Malation (Malathion)	X	X	X
Metamidofos (Methamidophos) [Monitor]	X	restricted use	X High Priority
Metidation (Methidathion)	X	restricted use	X
Metomilo (Methomyl) [Lannate]	X	restricted use	X High Priority
Mevinfos (Mevinphos) [Phosdrin]	X	X	X High Priority
Monocrotofos (Monocrotophos) [Azodrin]	X	discontinued	
Naled (Dibrom)	X	restricted use	X
Ometoato (Omethoate) [Folimat]	X	X	
Oxamil (Vydate)	X	discontinued	
Paration metil (Methyl Parathion)	X	restricted use	X
Paration etilico (Ethyl Parathion)	X	discontinued	
Pirimicarb (Pirimor)	X	discontinued	
Pirimifos (Pirimiphos-Methyl)	X	restricted use	
Profenofos (Profenophos) [Curacron]	X	restricted use	X
Teflutrina (Tefluthrin) see Lambda-Cyhalotra	X	restricted use	
Terbufos (Counter)	X	restricted use	X
Vamidothion	X	not marketed	

Sources:
* A.G. Picazo, Agricultural Chemicals Markets, 3 Mexico Trade and Law Reporter (June 1, 1993).

** Ed DeWitt, B&M Chemical, 6040 East 50th Avenue, Commerce City, Colorado 80022.

*** Current Report, Chemical Regulation Reporter 95 (4/23/93).

Misuse of pesticides endangers the environment and results in unsafe working conditions Mexico's enforcement of environmental regulations has not been optimal. President's Response to Issues Raised in Connection With The Negotiation of NAFTA 4(3) (May 1, 1991); see generally Baker, NAFTA & The Environment, **ABA: The North American Free Trade Agreement: Issues, Options, Implications** 210, 212 (March 1992). Indeed, there have been reported cases of Mexican workers exposed to hazardous chemicals. Baker, supra at 221. Thus, this is not just an environmental issue -- it is also a worker safety issue.

The misuse of pesticides has been associated with flower production in Colombia, Mexico's chief competitor in the U.S. market. It has been reported that pesticides used in Colombian flower production, including those banned in the United States, may be finding their way into the Colombian water table. Morning Edition, National Public Radio Broadcast (Oct. 12, 1992). Even Asocolflores, an association of Colombian flower producers/exporters, has been prompted to fund a 1991 study to identify and evaluate the environmental impact of Colombian flower production on the ecology, society, and economy. Ohio Florists' Association Bulletin at 4 (Sept. 1992). As recently as September 14, 1993, the **Financial Times** reported that "[t]he heavy use of pesticides -- required if flowers are to meet most import standards -- has caused health and environmental problems" in Colombia. Financial Problems Take The Bloom Off a Colombian Success Story, **Financial Times** 28 (Sept. 14, 1993). There are also reports that fumigation is conducted in greenhouses without removing employees. Morning Edition, National Public Radio Broadcast (Oct. 12, 1992). Without regulation, the need to be competitive with Colombian growers will encourage Mexican growers to follow suit (if they are not already). Therefore, it remains a concern of U.S. fresh cut flower growers that Mexican growers do not engage in cost-cutting, yet harmful practices.

Article 10 of the North American Agreement on Environmental Cooperation directs the Council to "strengthen cooperation on the development and continuing improvement of environmental laws and regulations" by "establishing a process for developing recommendations on greater compatibility of environmental technical regulations, standards and conformity assessment procedures. . . ." NAAEC at art. 10(3) (Sept. 13, 1993). Because the Council is charged with encouraging compliance with environmental laws and regulations under Article 10, Congress should require the U.S. representative to work towards harmonization of pesticide regulation and enforcement.

Finally, the U.S. government has reported on the potential harm to florists and consumers of pesticide residues left on imported flowers. Growers in Central American and South American countries are believed to use pesticides banned in the United States and to have growing practices that leave potentially harmful pesticide residues on imported fresh cut flowers. The U.S. Department of Agriculture ("USDA") conducted a study entitled Pesticide Residue Monitoring of Imported Cut Flowers at Miami International Airport in the late 1970's. According to the report, acute oral and dermal toxicity of most of the pesticides listed in the report were found in laboratory animals.

Another published report entitled Cut Flowers: A Potential Pesticide Hazard and written by Dale L. Morse, M.D., Edward L. Baker, M.D., and Philip J. Landrigan, M.D., from the Special Studies Branch, Chronic Diseases Division, Bureau of Epidemiology, Communicable Disease Center, USPHS, DHEW, in Atlanta, Georgia was prompted by reports of ten cases of possible pesticide poisoning in florists exposed to pesticide residues on cut flowers. The 1979 report allegedly "documents a previously unrecognized potential source of occupational pesticide exposure and suggests safety standards should be set for residue levels on cut flowers." D.L. Morse, E.L. Baker, & P.J. Landrigan, Cut Flowers: A Potential Pesticide Hazard, 69 AJPH 53 (Jan. 1979). The study investigated the pesticide contamination of imported flowers and found "pesticide concentrations on several lots of flowers high enough to be capable of causing illness." Id. According to the study:

> High pesticide levels on imported cut flowers were apparently related to excessive rates of pesticide application by Central and South American growers. This pattern of use may have been related to stringent USDA regulations that restrict importation of flowers and plants with various pests and plant diseases, but do not restrict importations of flowers with pesticide or toxic chemical contamination.

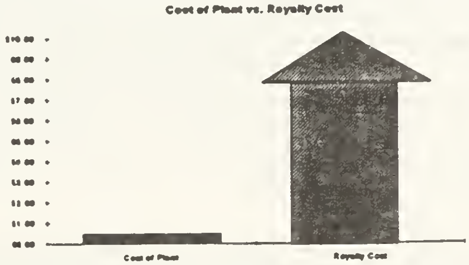
Id. at 56. A Freedom of Information Act Request has been filed to obtain updated information but has not yet been processed. Congress should take this opportunity to determine whether the issue of pesticide residues is a consumer protection issue and request that it be studied and addressed in the context of NAFTA implementing legislation or otherwise.

In addition, flowers are imported stripped of all leaves. Unless imported in the form of a bouquet or other arrangement, it is unclear why exporters would strip flowers of natural leaves. Removal of the leaves and, as a result, insects and diseased foliage would frustrate phytosanitary inspections. Therefore, Customs or the U.S. Department of Agriculture should be instructed to presume that such flowers may have dangerous pesticide residues on them due to pests or infection.

In order to address these concerns, legislation implementing Article 2 of the North American Agreement on Environmental Cooperation may be appropriate. Article 2 provides that each party "shall consider prohibiting the export to the territories of the other Parties of a pesticide or toxic substance whose use is prohibited within the Party's territory." NAAEC at art. 2(3) (Sept. 13, 1993). Mexico reportedly has 250,000 agricultural producers working 5.5 million hectares with agricultural chemicals. A.G. Picazo, Agricultural Chemicals, Markets, 3 **Mexico Trade and Law Reporter** (June 1, 1993). U.S. exports of agricultural chemicals increased from $71.6 million in 1990 to $137.3 million in 1992, and U.S. exports constituted approximately 75 percent of the market. Id., see EPA Summary, Environmental Plan for the Mexican-U.S. Border Area, First Stage (1992-1994) 31 (Feb. 1992). At minimum, implementing legislation should curtail U.S. manufacturers' exportation of pesticides and other chemicals which are banned in the United States to Mexico.

3. Patent Protection

U.S. growers face high royalties for patented flowers. At the present time in the United States, rose plants are not generally "owned" but are leased or rented from companies that hold patents. Leased or owned, companies enforce their patents in the United States by conducting repeated on-site inspections of the lessee's property to determine whether new plants are being propagated from the leased plants. We estimate that U.S. growers' royalty payment can be as high as $10 of a $10.50 plant, depending on the type of plant.



More typically, the royalty on a rose plant is likely to be $.65 of a $3.00 plant (including royalty). Yet, without the ability to enforce royalty agreements abroad, Mexican growers are believed to pay no royalties for mother plants by illegally making cuttings.

NAFTA's patent provisions do not specify the degree of active enforcement U.S. patent holders will be permitted in Mexico. NAFTA's Article 1714, for example, states that each party shall ensure "that enforcement procedures . . . are available under its domestic law so as to permit effective action to be taken against any act of infringement of intellectual property rights. . . ." NAFTA at art. 1714 (1992). Although Mexican law provides that authorized personnel will conduct inspection visits, there is no indication that these visits will protect U.S. patents or that the U.S. patentholder can inspect the lessee's property in Mexico. Law on the Promotion and Protection of Industrial Property, Diario Oficial at arts. 203-12 (June 27, 1991).

U.S. patents on mother plants can also be easily violated when imported merchandise is not marked with correct country of origin information. U.S. growers mark their flowers by tagging stems or by printed boxes or sleeving. Currently, individual fresh cut flowers imported into the United States are exempt from country of origin marking requirements. See 19 C.F.R. § 134.33. Only the outermost container in which the flower ordinarily reaches the ultimate purchaser must be marked with country of origin information. See Dep't Treas., Information Bulletin No. 90-91 (11/28/90).

In practice, if imported merchandise is marked at all, only the box or other container of flowers will be marked. But, flowers are taken out of these containers either by wholesalers or retailers (including grocery stores) before resale to consumers. Often imports entering the United States are either not marked with country of origin information or the information is misleading (e.g., providing location of corporate headquarters or location of importer as country of origin). Some flowers are even being repackaged in the

United States and labelled "made in California." Indeed, Customs has noted, through examination of fresh cut flower imports, that "some containers show a U.S. address and bear no country of origin marking." Id. at 2. Hence, neither Customs nor the holder of the patent can determine whether imported flowers have been produced or sold without payment of royalties.

Annex 311 of NAFTA outlines the country of origin marking requirements. NAFTA at Annex 311 (1992). While NAFTA appears to provide reasonable marking requirements, similar requirements have been consistently ignored under U.S. law. See 19 U.S.C. § 1304. As a result, the enforcement measures specified under NAFTA do nothing to prevent patent infringement of fresh cut flowers if the patent holder cannot identify imported flowers' country of origin. See NAFTA at art. 1718 (1992) (Enforcement of Intellectual Property Rights at the Border); see id. at Annex 1718.14 (Mexico endeavors to comply with Article 1718 no later than three years after NAFTA is signed). In this manner, foreign imports can circumvent patent protections.

Therefore, Congress should establish more comprehensive country of origin marking requirements for imported fresh cut flowers. NAFTA implementing legislation should be drafted to address the need for intellectual property protection which encourages or facilitates patent enforcement.

III. HISTORICAL IMPACT OF MEXICAN FLOWER IMPORTS ON THE U.S. FRESH CUT FLOWER INDUSTRY

Having discussed three artificial cost advantages of concern to the U.S. grower, it should be explained that U.S. fresh cut flower growers will shortly be competing with increased amounts of Mexican product in the U.S. market at a clear disadvantage. Mexico's total agricultural exports to the United State "rose from $513 million to $2.1 billion" from 1970 to 1987. That expansion was due, in part, to the U.S. market's expansion in cut flowers. Mexico 2000: A Classical Analysis of the Mexican Economy and the Case for Supply-Side Economic Reform 86 (Polyconomics, Inc. July 2, 1990) (citing M. Drabenstott, et al., The Latin American Debt Problem and U.S. Agriculture, Federal Reserve Bank of Kansas City (Economic Review) 53 (July/August)). Of the Latin American countries producing fresh cut roses, Mexico had the largest percentage gain in import share of the U.S. market during 1984 through 1988. USITC Pub. 2178, at 4-17. With the United States as its principal market, Mexico's rose imports during those years increased from 7.1 million to 26.4 million stems: a total increase of 19.3 million stems, or over 270 percent. Id.

During the 1980's, Mexican fresh cut flowers, other than roses, obtained duty-free treatment under the Generalized System of Preferences ("GSP") program. At the same time, Mexican prices for standard carnations, standard chrysanthemums, and pompom chrysanthemums were underselling domestic prices. USITC Pub. 1956, at 28, 33, 37. The International Trade Commission found that the U.S. industry was injured by sales of Mexican flowers at less than fair value based on imports during 1983 through 1986. Certain Fresh Cut Flowers from Peru, Kenya, and Mexico, Inv. No. 303-TA-18 (Final), USITC Pub. 1968, at 2, A-11 (April 1987). In 1987, the International Trade Administration, U.S. Department of Commerce, issued an antidumping duty order covering imports of such flowers from Mexico. Certain Fresh Cut Flowers from Mexico, 52 Fed. Reg. 13,491 (Dep't Comm. 1987) (Order).

Today, despite the existence of regular customs duties of 8 percent on roses and antidumping duties on standard carnations, standard chrysanthemums, and pompom chrysanthemums, the U.S. industry's negative trade balance with Mexico in all fresh cut flowers, including roses, has increased from $10,701,333 in 1989 to $15,126,726 in 1991. U.S. Dep't Comm., Bureau of the Census, Imports for Consumption Statistics, HTS 0603.10. Mexico shipped 93 percent of its flower exports to the United States in 1991 alone. Trade Inflo (Data as reported by the Mexico Dep't Comm. and Industry, HTS 0603.10.00).

Both the California Cut Flower Commission and the Floral Trade Council have submitted comments to the International Trade Commission (ITC) on the issue of the impact of NAFTA on the fresh cut flower industry. The ITC anticipates that tariff elimination under NAFTA will stimulate increased Mexican imports of fresh cut flowers. The ITC reported that the Mexican government has been working with Mexican growers to develop the necessary infrastructure to produce and market high-quality flowers including roses in the U.S. market. USITC Pub. 2596, at 30-4. The ITC concluded that NAFTA would lead to "increased U.S. imports, in both the short and long term, of . . . fresh-cut roses" and that the "domestic fresh cut flower industry, specifically fresh-cut roses also may experience negative production and employment effects, particularly in the long term." USITC Pub. 2596, at 22-2, 22-8, 30-3; see also USDA, Effects of the NAFTA on U.S. Agricultural Commodities 24 (March 1993).

The projected increase may not reflect increased acreage to be made available for flower production under the Mexican ejido reforms. See USITC Pub. 2596, at 22-6, 30-4. While Mexico reportedly has 4250 hectares devoted to cut flower production (50 hectares for roses and 3500 for carnations), it has been estimated that between 160-70 hectares were devoted to rose production in 1992, and there are recent reports that Mexico has "40 new flower production projects underway which will add 720 hectares for flower growing by 1994. . . ." H.K. Tayama of The Ohio States University, Dep't Horticulture, Trends in Floriculture Production Centers, Channels of Distribution, Marketing Behavior, and Opportunities for U.S. Rose Growers 2, 4 (Presented by Roses, Inc. on October 3, 1992, Columbus, Ohio); Statement of Roses, Inc. in USITC Inv. No. 332-337 (Nov. 24, 1992); Agricultural Chemicals, Markets, 3 Mexico Trade and Law Reporter (June 1, 1993). In sum, the U.S. fresh cut flower grower, and particularly the California grower, expects to contend with price pressure from increased quantities of Mexican flowers in the U.S. market and abroad.

IV. CONCLUSION

As an import-sensitive industry, the U.S. fresh cut flower growers ask Congress, through NAFTA implementing legislation or otherwise, to ensure that the "playing field" is leveled. Congress should eliminate the artificial cost advantages from differences in wage rates, pesticide use, and patent enforcement that accrue to the benefit of Mexican flower growers and to the detriment of the U.S. grower. The California Cut Flower Commission and the Floral Trade Council appreciate the significance of the supplemental agreements addressing environmental and labor concerns. We are willing to work with Congress and the Administration if NAFTA is adopted to address these and other issues of concern to the U.S. fresh cut flower industry.

Respectfully submitted,

CALIFORNIA CUT FLOWER COMMISSION
David L. Pruitt
Chairman, Board of Directors

FLORAL TRADE COUNCIL
Timothy J. Haley,
President
David F. Machtel, Jr.,
Executive Director

Terence P. Stewart
James R. Cannon, Jr.
Amy S. Dwyer

STEWART AND STEWART
808 Seventeenth Street, N.W.
Washington, DC 20006
Telephone: (202) 785-4185

Special Counsel to the
Floral Trade Council

STATEMENT OF THE CENTRAL AMERICA AND CARIBBEAN TEXTILE AND APPAREL COUNCIL

The Central America and Caribbean Textile and Apparel Council (hereinafter referred to as "The Council") is the coordinating body for the representation of the textile and apparel industries located in 24 countries in the Caribbean and Central America.

The Council strongly supports the North America Free Trade Agreement (NAFTA). NAFTA is the next logical step in the economic restructuring and market openings that the U.S., Mexico, Latin America and the Caribbean have undertaken in the past few years. By failing to pass NAFTA, these changes will be undermined and cause to be lost a historic opportunity to proceed with hemispheric integration which will lead to long-term economic stability in the hemisphere. Economic stability in this region has much to do with how important, long-standing political issues human rights, terrorism, drug trafficking, democracy, immigration—are dealt with.

At the same time, the Council is very concerned that the passage of NAFTA will adversely affect the competitiveness of Central America and Caribbean region by attracting existing and potential investment from the region to Mexico, particularly in the textile and apparel sectors. It is for this reason we seek parity with NAFTA and seek to include parity in the NAFTA implementing legislation.

Inclusion of parity in the NAFTA implementing legislation will in no way impede the NAFTA process. In fact, inclusion may well facilitate passage. Inclusion of parity in the NAFTA implementing legislation will actually increase U.S. support for NAFTA because it will assure that states, firms, or workers reliant on trade with Central America and the Caribbean Basin will not be disadvantaged by NAFTA, and therefore will be able to support it wholeheartedly.

Inclusion of parity in the NAFTA implementing legislation will maintain and support the long standing and mutually advantageous relationship between the U.S. and the Central American and Caribbean Basin countries. It will do so at a very low cost because extending NAFTA benefits to Central America and Caribbean Basin countries will have a minimal impact on the U.S. It is estimated that granting NAFTA parity to Central America and the Caribbean Basin will cost $187 million over five years. The small size of Central America and the Caribbean Basin beneficiary countries guarantees there will be no disruption of the domestic U.S. market, while the opportunities given to the Central American and Caribbean Basin countries will make a huge difference in the region's future.

By including parity in the NAFTA implementing legislation, the U.S. will be encouraging Central American and Caribbean Basin nations to assume their full obligations under a free trade regime and to further open their markets to US. products, services and investment. Without parity, U.S. companies already in the region, competitively disadvantaged by the eventual elimination of Mexican duty rates and quotas, will be forced to consider relocating existing manufacturing facilities. At the very least, they will likely avoid any future investment in the region. Such a reversal in the investment climate will have tragic consequences for the social, economic and political stability of the region.

United States Trade Representative Mickey Kantor recently stated that:

> "the Americas now are the second fastest-growing region in the world. Only Asia exceeds the growth in the Americas. More than a few Latin American countries are shrinking their budget deficits, reducing their foreign debts, and opening up their previously hothouse economies to global competition. This trend provides us with a historic opportunity to make permanent reductions in trade and investment barriers—and in so doing to strengthen growth and democracy through the Americas."

This statement truly reflects the significance of expanding the opportunities provided for in NAFTA to Central America and the Caribbean Basin.

The Caribbean Basin Initiatives to date have over the past 10 years contributed significantly to the economic growth and political stability in this nearby, strategically important region. Clearly, any progress our neighbors to the South make enhances our own country's political security. In fact, in large part as a result of CBI, in the last decade, we have witnessed a strong and consistent movement by the Central American and Caribbean nations towards democracy, economic reforms and trade and investment liberalization. Democracy and open markets clearly buttress each other. Improved economic conditions contribute to political stability, deter illegal immigration, and create an alternative to the production and trafficking of illegal drugs.

The Central American and Caribbean textile and apparel industries will have a very time competing with a Mexican industrial sector that has unbridled access to the U.S. The textile and apparel industries of Central America and Caribbean Basin are currently subject to quantitative and qualitative restrictions and tariffs, and without NAFTA parity, our industries will be unable to hold their ground against Mexico.

During the past decade Central America and the Caribbean Basin economies have continued to develop and grow, on an economic base stimulated by our Congress' CBIs and, as a result, the demand for U.S. goods and services has grown. The U.S. has maintained a larger and more consistent job-creating trade surplus (on a per capita basis) with Central America and Caribbean Basin countries than with any other region in the world. The Central American Panamanian Federation of Private Entities indicated in a recent report that "60% of the Caribbean and Central American region's income goes to buy American products." The report also stated "45% of raw material, machinery and equipment imports of Central America and Caribbean Basin countries comes from the United States." Thus, we have the truest elements of symbiotic trade . . . mutuality of interest and benefit.

In 1992, U.S. exports to Central America and the Caribbean Basin exceeded $11 billion, up more than 10% from 1991. These exports created more than 220,000 American jobs. In addition, for every 100 jobs created in Central America and Caribbean Basin, 15 new jobs are created in the U.S. And U.S. exports to Central America and Caribbean Basin region are expanding at a rate three times the rate of exports to the world as a whole.

Over the past ten years, U.S. companies have moved production to the Central American and Caribbean region in order to remain competitive in the increasingly liberalized global trade in textile and apparel products. These firms recognize that sourcing from the Central American and Caribbean Basin countries allows them to compete with lower cost suppliers from the Pacific Rim—despite the fact textile and apparel products are excluded from CBI benefits.

The ability of U.S. textile and apparel firms to combine U.S. production with offshore assembly in Central America and the Caribbean Basin allows U.S. firms to compete with low-cost producers in Asia. Jobs are thus protected in the U.S. that would otherwise go offshore, most likely to the Far East.

The total U.S. Customs value of textile and apparel trade between the Central American and Caribbean region and the U.S. grew from $1.1 billion in 1987 to $3.2 billion in 1992. During this time period, the value of U.S. components grew from $580 million to $1.7 billion showing that the growth of U.S. apparel imports from the region has been accompanied by the strong and consistent growth U.S. exports.

A large number of the textile and apparel producers that make up our Council use U.S. cut and formed fabric. This fabric is shipped from the U.S. to Central America and the Caribbean Basin and assembled. This two way process provides numerous benefits for both Central America and Caribbean Basin and the U.S. with the most important benefits being investment, jobs, and trade. This is a true partnership between the U.S. and Central America and Caribbean Basin nations.

Many companies in the Council are deeply fearful of the signal the U.S. Government is presently issuing in respect to the narrow focus on NAFTA without due respect for Central America and the Caribbean Basin region. Including parity in the NAFTA implementing legislation is crucial for us to remain competitive in this region. Yet, our members tell us, as a result of NAFTA, they have already seen indications of a diversion of investor interest from the region to Mexico for the location of new factories. This shift of potential and incremental investment could result in disinvestment in the region at large.

As a practical matter, parity is essential to products such as textile and apparel. These products account for nearly 50 percent of total U.S. imports from Central America and Caribbean Basin. These products are currently ineligible for CBI duty-free treatment, they carry the highest rates in the U.S. tariff schedule. Free access for Mexico's exports of these products would give the Mexican exporter anywhere between an 8 to 25 percent cost advantage over his competitors in Central America and Caribbean Basin beneficiary countries.

Despite early concern that accompanied the CBI, U.S. imports of textiles and apparel from CBI countries are not disrupting U.S. industry. Over 77 percent of Central America and Caribbean Basin textile and apparel exports to the U.S. are assembled, in whole or in part, from U.S. components. These imports from Central America the Caribbean Basin displace imports from Asia which contain little, if any, U.S. content. Our assembly plants help the U.S. to remain strong, internationally competitive and preserve U.S. jobs.

Many U.S. companies invested in Central America and the Caribbean in the 1980's. They did so to remain competitive against Asian facilities. This was a business decision based in part on the strong commitment of the U.S. Government to see this region prosper. This commitment, in CBI I and CBI II, was the basis for air decision. Their business decision was based upon what was thought to be a safe, secure and competitive investment.

Including parity in the NAFTA implementing legislation will protect the interests of U.S. companies in the region especially in the textile and apparel industry. Many U.S. firms invested in the region in order to compete with low cost Asian textile and apparel manufacturers while still maintaining facilities in the U.S. Failure to provide NAFTA-like access for Central American and Caribbean nations would punish U.S. firms who at the encouragement of the U.S. Government took the risk and invested in Central America and the Caribbean Basin. More importantly, it would also harm American workers in the mill and apparel sectors reliant on coproduction with the region.

Including parity in the NAFTA implementing legislation will encourage the countries of Central America and the Caribbean to move quickly to negotiate reciprocal free-trade agreements with the U.S. thus laying the groundwork for Central America and the Caribbean Basin to become part of a longer term economic integration of the entire Western Hemisphere. We feel it will be a big mistake for the U.S. to provide Mexico with benefits that will severely disadvantage the countries of Central American and the Caribbean, and especially the textile and apparel industries. After all, are not the Central American and Caribbean nations part of North America. We strongly urge the inclusion of parity for Central America and the Caribbean Basin in the NAFTA implementing legislation and strongly urge adoption of NAFTA.

STATEMENT OF THE CHOCOLATE MANUFACTURERS ASSOCIATION

NAFTA is strongly supported by the Chocolate Manufacturers Association of the U.S. A. (CMA) and the National Confectioners Association of the United States (NCA). We welcome this opportunity to explain the important economic advantages that will accrue to our industries in the U.S. from free-trade with Mexico.

The CMA and NCA represent confectionery companies with 55,000 employees at 166 locations in 32 states, comprising about 90% of the chocolate and sugar confectionery produced in this country. We are a $13-14 billion industry at retail.

Confectionery exports to Mexico have increased 62% in the past two years, from over 33 million lbs. to over 54 million lbs. Mexico is the second largest export market for U.S. confectionery, right behind Canada. NAFTA will significantly increase these percentages creating positive economic growth and jobs in the U.S. for our industry. **Every $200,000 of U.S. confectionery sales translates into one American job directly related to confectionery manufacture. The nearly $600 million of confectionery sales to Mexico by 2008 projected by USDA will translate into over 3,000 jobs within the next several years.**

Tariff Elimination will increase U.S. Confectionery Exports

Most confectionery imports from Mexico enter the United States duty-free under the Generalized System of Preferences (GSP). In contrast, U.S. confectionery exports to Mexico are subject to a 20% tariff. While Mexico's current tariff of 20% marks progress over previous import bans and tariffs at 45%, the large disparity between the U.S. and Mexican tariffs still places our industry at a serious disadvantage in entering the Mexican market.

Recent statistics[1] for U.S. trade with Mexico in sugar and chocolate confectionery clearly demonstrate that our industry will benefit even in the short run from the further reduction of Mexico's trade barriers. Five years ago, Mexico's market was virtually closed to U.S. confectionery products. The U.S. confectionery industry responded vigorously to the opening of the Mexican market in 1988, and in two short years, the U.S. industry enjoyed a $32 million trade surplus in chocolate and sugar confectionery.

As the following U.S. trade charts for 1992 demonstrate (see tables below), U.S. exports of sugar confectionery to Mexico were valued at $23 million, while imports of sugar confectionery from Mexico were valued at $21 million. U.S. exports of chocolate confectionery to Mexico were valued at $53 million, while imports of Mexican chocolate confectionery to the U.S. were valued at $5 million.[2] **U.S. confectionery exports to Mexico are projected to increase to a whopping $600 million in 2008, the 15th year of the NAFTA Agreement. That is nearly a 700% increase in American exports in the 15-year period.**

This is a staggering increase in U.S. exports. Our country has always looked to exports to increase its economic growth. We cannot afford to lose the opportunity for growth and U.S. jobs that will necessarily result from NAFTA. This real potential is the reason we so strongly support NAFTA.

U.S. Exports of Confectionery Products to Mexico

Item	1989	1990	1991	1992
	(Value in Millions)			
Cocoa & chocolate products	34	32	47	53
Confectionery	12	18	20	23
Total products	**46**	**50**	**67**	**76**

U.S. Imports of Confectionery Products From Mexico

Item	1989	1990	1991	1992
	(Value in Millions)			
Cocoa and chocolate products	3	7	6	5
Confectionery	13	11	15	21
Total products	**16**	**18**	**21**	**26**
U.S. Trade Balance	**+30**	**+32**	**+46**	**+50**

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[1] Mexico's Sugar Industry--Current and Future Situation by Fred Kessel, Peter Buzzanell and Ron Lord, April 12, 1993.

[2] These are classified under HTS item numbers 1806.20 (bulk chocolate); 1806.31 (filled chocolate bars); 1806.32 (unfilled chocolate bars); 1806.90 (other chocolate confectionery, such as boxed chocolates) and 1704.9020 (confections/sweetmeats ready for consumption, not containing cocoa).

Consumption Potential

Confectionery consumption in the U.S. is more than 21 pounds per person. Mexico's consumption is only slightly more than 7 pounds per person. Most industrialized countries have per capita consumption levels similar or higher than the U.S. Because the growth of the U.S. confectionery industry is linked to international trade and export to countries like Mexico with its 85 million inhabitants, there is tremendous potential for increased consumption opportunities as Mexican income levels continue to increase. As NAFTA fortifies Mexico's economy and raises the income levels of its inhabitants, this potential will grow exponentially.

Ten Year Phase Out Unnecessary

We do not believe that a 10 year phase out of confectionery duties is necessary. Decades of absolute protection in Mexico have fostered a very strong Mexican confectionery industry. It is dominated by La Azteca, a Mexican company which possesses about a 40% share of the chocolate market. The Mexican industry is not a "fledgling industry" in need of special advantages, since it already benefits from secure supply sources, longstanding distribution arrangements, brand-name recognition and other advantages which accrue to long-established, protected companies.

Agriculture Commodity Provisions of NAFTA Should Not be Changed

NAFTA provides a 15-year phase-in to free trade in sugar. Currently quotas are in place. These will be replaced by tariff rate quotas. Finally, at the end of the 15 year phase-in, Mexico will be allowed to export peanuts or sugar at a level above their current U.S. country quota if they can become net exporters of these products. We believe this 15-year transition is more than adequate for the domestic producing industries to adjust to any changes which might occur.

Industry Opposes a Memorandum of Understanding on Sugar

We oppose the domestic sugar industry's request that U.S. negotiators issue a memorandum of understanding with Mexico expanding the definition of "surplus producer" to include production and consumption of corn sweeteners.

This expansion at this late date threatens the sugar and sugar-containing products (including confectionery provisions) of the Agreement. Under the expansion, Mexico's total sugar and corn sweetener production must exceed its total sugar and corn sweetener consumption for Mexico to qualify as a "net surplus producer." It is unlikely that Mexico can ever meet the requirements of the Agreement to become a net exporter of sugar.[3] The expansion then undermines the entire sugar part of the Agreement.

Summary

The U.S. confectionery industry has worked for years to reduce or eliminate barriers to our products around the world. Our industry will grow if the U.S. continues to exercise global leadership, in bilateral, unilateral and most importantly, in regional trade agreements like NAFTA.

We urge this Committee to work toward Congressional passage of NAFTA, with no change in the sugar provisions of the text.

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[3] Mexico's Sugar Industry--Current and Future Situation by Fred Kessel, Peter Buzzanell and Ron Lord, April 12, 1993.

STATEMENT OF THE COSMETIC, TOILETRY, AND FRAGRANCE ASSOCIATION

CTFA is the national trade association representing the cosmetic, toiletry and fragrance industry. Founded in 1894, CTFA has an active membership of 240 companies which manufacture or distribute the vast majority of the finished cosmetic products marketed in the United States. CTFA also includes 270 associate members, which sell services, equipment or supplies such as raw materials and packaging components to active members.

CTFA represents companies of all sizes. The annual sales of our individual members range from $10,000 to more than $3 billion.

More than half of our members are small businesses with annual sales of less than $1 million.

Many of our members, both large and small, are either actively engaged in selling their products in Mexico or are looking at Mexico as a potential growth market.

Our members support the passage of the North American Free Trade Agreement (NAFTA). CTFA is, however, sympathetic to some of the concerns that have been raised by the critics of NAFTA particularly the concern that has been voiced about the loss of American jobs.

Some opponents of NAFTA fear that its passage will mean the massive export of jobs to Mexico or the import of competing products produced by low-paid workers which would flood the U.S. market at a lower cost, making American produced goods less competitive.

For our industry, neither of these scenarios is likely to occur. However, CTFA believes that there is the grim possibility that if NAFTA does not pass, American jobs could actually be lost in our sector.

Today, Mexico is one of the fastest growing markets for our companies. The total Mexican market for cosmetics has grown from just $290.5 million in 1988 to over $1.5 billion in 1992.

This kind of growth offers substantial opportunities for American companies and our companies have taken advantage of those opportunities by increasing exports in a similar dramatic way.

Exports from the United States to Mexico in our product categories have increased in just five years by about 1000%. For example, in 1988 the value of American cosmetic exports to Mexico was $11 million, by 1989 they had nearly tripled to $30 million, and last year they were $125 million. These are exports of U.S. manufactured products running the range of our products from soaps to deodorants to shampoos to shaving cream to toothpaste to perfume, etc.

This year, even in the face of the worldwide slowdown, cosmetic exports to Mexico are 50% higher than for the same period in 1992.

Exports have been one bright spot for our companies in an otherwise slow growth period. And while total worldwide cosmetic exports grew 12% last year, with Mexico offering four times that rate of growth, one can readily appreciate the significant impact the Mexican market has on total exports for our industry.

In fact, Mexico now accounts for 7% of total American cosmetic exports. All of this is good news for those people who express concern about American jobs.

Certainly, export growth is a major factor in a company's success and increased exports contribute to sustained or increased employment.

Based on a Department of Commerce analysis, one job is created for every $47,000 in exports. Using this estimate, last year's $125 million worth of cosmetic exports to Mexico potentially accounted for 2,500 jobs for American workers.

It is important to note that a large segment of U.S. cosmetic companies are small businesses and employ 50 employees or less. CTFA finds that for many of the medium and small sized companies, Mexico is one of the first markets they look to when considering expanding their markets beyond the U.S. borders.

These companies are able to supply the Mexican market from the U.S. It is quite unlikely that they would relocate to Mexico when they can increase their manufacturing capacity in this country with very little effort.

CTFA does not believe that any of the critics of NAFTA are in favor of decreasing exports. Yet if NAFTA is not enacted, that may be the very result of such a move.

For years, the cosmetic industry, like many others, faced a hostile trading environment in Mexico. Mexico had rules requiring that companies manufacture their products in Mexico or purchase supplies from Mexican suppliers which, more likely than not, meant inferior quality. The Mexican Government set the price at which cosmetic companies could sell their products and required that a company obtain Mexican Government approval for each cosmetic product before it could be sold in their country.

These so called non-tariff barriers created an anti-business climate which meant that many American companies refused or were unable to do business in Mexico.

Beginning in 1987, the Mexican Government did away with these onerous rules and our companies began entering the Mexican market in a big way. As a result, the sales of American products increased by the magnitude cited earlier.

The failure of NAFTA could lead to a return to the old way of doing business in Mexico which would spell the doom of the kind of growth the cosmetic industry has seen since the opening up of their market to American exports. It might also cause sales to shrink dramatically, thus potentially affecting American jobs that are dependent on exports.

Also important is the spill-over effect that the passage of NAFTA would have on the other economies of Latin America, many of which are just now thinking about easing their own rigid market entry requirements. If it spurred growth in those markets at anywhere near the rate experienced in Mexico, this would be an added boon.

Turning for a moment to the other fear voiced by some of the opponents regarding the potential threat from Mexican imports, CTFA believes that for the cosmetic industry sector that is not a reality.

As the leaders of the world in this sector, CTFA has no fear that the market will be flooded with cosmetics manufactured in Mexico. Certainly there are Mexican manufacturers of cosmetics and these manufacturers have made great strides in their manufacturing capabilities. But the truth of the matter is that the U.S. leads the way in quality and product development in the cosmetic sector. CTFA feels that there will be little competition in this sector.

Finally, passage of NAFTA also means elimination of tariff rates which are now 2 or 3-times higher on U.S. goods than on Mexican goods. The elimination of these tariffs on U.S. cosmetics will make our goods even more competitive, ensuring an even larger share of the Mexican market.

The United States is the largest producer of perfumes, cosmetics, and toiletries in the world, not the Europeans and not the Japanese. But there are competitors, and it is incumbent upon the U.S. to take action to ensure competitiveness.

CTFA respectfully urges this Committee and the Congress to consider the overwhelming evidence that NAFTA will lock in the export gains that have been made and will lead to continued growth of exports.

Certainly, the cosmetic industry's performance in Mexico is one of which CTFA can be very proud. The industry is far ahead of the usual market competitors and passage of NAFTA will assure that the U.S. cosmetic industry continues to lead the way.

Thank you.

CUSTOMS AND INTERNATIONAL TRADE BAR ASSOCIATION,
New York, NY, October 12, 1993.

Mr. WAYNE HOSIER,
U.S. Senate,
Committee on Finance,
Washington, DC.

Dear Mr. Hosier:

Re: Committee on Finance Press Release No. H–34; Request for Clarification on Provision in NAFTA.

INTRODUCTION

This letter presents the request for clarification by the Customs and International Trade Bar Association ("CITBA")[1] in implementing legislation on a single article of the NAFTA. This letter is submitted in conformity with the Committee's Press Release No. H–34. CITBA and its individual members do not by this written submission express either general support or opposition to NAFTA or agreement/disagreement with other provisions of the NAFTA.[2] Nor does CITBA suggest by this submission that Article 506.7 is the only provision within NAFTA that merits comment. CITBA members have just recently received the Draft Implementing Proposal on NAFTA from the House Ways and Means Committee Subcommittee on Trade (dated October 5, 1993). CITBA hopes to provide more extensive comments in connection with its evaluation of the proposed implementing legislation.

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[1] CITBA's membership consists of over 400 attorneys who practice primarily customs and international trade law. The comments were prepared by CITBA's Committee on Unfair Trade and Trade Adjustment (which has primary responsibility for monitoring developments within trade agreements, unfair trade laws and trade adjustment assistance and for reporting its recommendations for Association action to CITBA's Board of Directors) based on concerns raised by the Board.

CLARIFICATION OF ARTICLE 506.7

Under 506.1 of the NAFTA, Parties may verify by means of visits to the premises of an exporter or producer in the territory of another Party to review the records referred to in Article 505(a) and observe the production facilities.

Article 506.7 provides:

> Each Party shall permit an exporter or a producer whose good is the subject of a verification visit by another Party to designate two observers to be present during the visit, provided that:
>
> (a) the observers do not participate in a manner other than as observers . . . .

Pursuant to Article 511.1 the Parties are to establish uniform regulations by January 1, 1994 governing Chapters 4 (Origin) and 5 (Customs Procedures).

CITBA request for clarification flows from the lack of definition for the term "observer" in NAFTA and the potential confusion that the term "observer" could somehow deprive an exporter or producer of the right to have counsel present and actively participating in any verification. Therefore, CITBA requests that the Congress in implementing legislation clarify that Article 506.7 does not limit the right of an exporter or producer to be represented by counsel and to have counsel present at any verification visit and to participate fully therein as the representative of the person being verified, and that the attorney will not count as one of the "observers." Nor should the presence of the producer's or exporter's accounting firm count as one of the "observers." As local GAAP is to be followed (Article 506.8), it is probable that the exporter or producer will want its accounting firm present to help in explaining information, records, etc. The limitations stated for "observers" are plainly inappropriate for such advisers or representatives as accountants.

CITBA also believes that Congress should clarify that the term "observer" can include any legal entity (e.g., not just individuals). This would permit a legal entity (e.g., consulting firm) to participate as an observer regardless of changes in particular individuals from the firm at the verification.

CITBA assumes that there is no intention in NAFTA to deprive companies of their rights to legal representation on customs matters or to deprive companies of the ability to have other representatives present to participate in the verification process. The clarifications requested herein would assure that confusion does not arise after Implementation of the agreement.

Sincerely,

Brian S. Goldstein, *President*
Terence P. Stewart, *Chairman,*
Committee on Unfair Trade and Trade Adjustment.

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[2] CITBA has had a longstanding opposition to the introduction of binational panels for unfair trade litigation under the U.S.-Canada FTA. Similar provisions are contained within the NAFTA.

STATEMENT OF THE FLORIDA FRUIT & VEGETABLE ASSOCIATION

Summary of Position

The Florida Fruit & Vegetable Association (FFVA or Association) opposes the North American Free Trade Agreement (NAFTA) as presently written. Fruit and vegetable growers, their workers and communities will be seriously harmed by it. Moreover, the side agreements will not adequately address the issues of importance to our growers. Attached please review FFVA's most recent Position Statement on this NAFTA.

During the course of negotiations, FFVA met with leaders in the current and prior Administrations and with leaders in Congress to get an agreement that would permit its growers to continue farming into the next century. Initially, FFVA requested (1) an exemption from tariff reductions or, at a minimum, a lengthy phase-out of tariffs for sensitive crops (20 years); (2) harmonization of environmental and labor standards between the growers in Mexico and in the U.S.; and, (3) a price and volume-based safeguard mechanism to protect growers against serious import surges during the transition period.

The Agreement contains no exemption for fruits and vegetables, nor does it contain a 20-year phase-out period. It does address in general terms environmental and labor standards in the side agreements, but there is no provision requiring the harmonization of standards. Lastly, the Agreement contains a safeguard provision for only a few commodities, but this provision contains only a quantity-based snap-back mechanism which is not adequate for fruits and vegetables.

As written, including side agreements, this NAFTA will harm our growers and, until it is changed, we must oppose it.

Background

Florida agriculture is a $6 billion industry that provides wholesome, affordable food for consumers in the U.S. and around the world. More than 240 commodities are produced on Florida's 40,000 farms, ranches and groves. During the winter months, Florida growers provide more than half of the nation's fruit, vegetables, citrus and cane sugar. The agriculture industry in Florida provides jobs for more than 250,000 people during peak production periods, and contributes strongly to the state's economy. It is the second ranked industry in the 4th most populous state in the country.

In February 1991, the U.S. International Trade Commission (USITC) found that producers and processors of winter fruits and vegetables were expected to experience losses in production and employment as a result of this Agreement. Subsequent studies have confirmed these findings, including a recently released report by the Council for Agricultural Science and Technology (CAST). In April of 1991, Florida agriculture requested an exemption of import-sensitive, winter-produced fruits and vegetables, and citrus and their products from the NAFTA until such time as several serious concerns of the industry were meaningfully addressed and satisfied. A number of specific recommendations were made to mitigate the harm to Florida agriculture.

On August 12, 1992, President Bush signed the NAFTA concluding 14 months of negotiations with Mexico and Canada. Very few of the industry's recommendations were in the Agreement; in addition, some provisions which we were told were in the Agreement were deleted in the eleventh hour of negotiations. For example, we were assured that winter fruits and vegetables would be placed in the most sensitive category (C+). They were not. Since that time, FFVA, Florida's Agriculture Commissioner, and many other organizations have commented on the Agreement's failure to adequately address the concerns of the industry.

On December 17, 1992, President Bush signed the Agreement amid considerable criticism over the potentially great impact the Agreement would have on jobs, the environment, and selected industries, including agriculture. Following his inauguration, President Clinton proposed side agreements to the NAFTA to be negotiated in the area of the environment, labor and import surges.

In a letter dated March 11, 1993 (copy enclosed), 23 members of the Florida Congressional delegation wrote to President Clinton advocating the inclusion of 6 specific recommendations in the side agreements to assure that Florida agriculture does not disproportionally bear the burden of NAFTA. In a letter dated July 20, 1993, Ambassador Kantor replied to this letter noting that Florida will benefit from the NAFTA, but he (and the side agreements) failed to address even one of the recommendations made.

It is clear to us that negotiations to date have failed to meaningfully address Florida agriculture's concerns.

Injury to Florida Agriculture

Mexico is the largest foreign supplier of horticultural products to the United States. The U.S. International Trade Commission found in February 1991 that the elimination of tariffs (and non-tariff barriers) in a free trade agreement would generate "a significant increase in U.S. imports [of horticultural products]. . . ." Summary of USITC Inv. No. 332-297, "The Likely Impact on the United States of a Free Trade Agreement with Mexico," p. xi. The Report continues saying that "Mexican producers are able to supply the U.S. market with many of the same products grown or processed in the United States at much lower costs. This is particularly true for citrus crops and winter vegetables that are manually harvested. U.S. growers of these products are expected to experience losses in production, particularly growers in Florida . . . who compete directly with products during the same growing seasons in Mexico." Id. at xi-xii. Florida's fruit and vegetable growers grow and market their products during the winter months in direct competition with Mexico. They are not complementary in any normal meaning of that word. Despite arguments to the contrary, Mexico's imports of fruits and vegetables do not supplement Florida's production. Florida could, fairly easily, expand its production of fruits and vegetables if Mexico was not in the U.S. market.

Several economists predict that 20% of the Florida tomato industry (approximately $125,000,000) will be lost if the NAFTA went immediately and fully into effect and that 8,700 tomato workers would lose their jobs. Florida's Agriculture Commissioner has estimated the job loss for all of Florida agriculture to be 50,000 plus. Others have predicted greater harm. We believe the impact will fall hardest on the small, marginal growers. For some of the larger growers, the free trade agreement may be the "last straw" that will economically force them to take their operations to Mexico or at least offshore so that they can compete with Mexico without the heavy burden of U.S. governmental regulations.

There appears to be a concerted effort to downplay the importance of fruits and vegetables in general and the impact of this Agreement on them. However, fruits and vegetables represent 25% of the consumer's food bill, and according to the Surgeon General and many others, they are highly recommended for a healthy diet. Fruits and vegetables are grown in every state, but they are concentrated in California, Florida and Texas. They are so important that California and Florida rank number 1 and 2 among all states in cash receipts from growing crops. Fruit and vegetables crops are not subsidized. In Florida alone they represent approximately one million acres of economic activity. We estimate 500,000 people are involved in Florida agriculture, considering field workers, truck drivers, packing house workers, mechanics, salespeople and others. These people will be harmed by this Agreement and the businesses and communities they work for and in.

At issue is the competitiveness of the American farmer operating in an industrialized country vis-a-vis the Mexican farmer operating in an economy only a fraction of ours. Our costs to operate in our system are great, as much as thirty percent of all our costs. Mexican growers do not pay such costs. The difference in costs is a subsidy to the Mexican growers which is not accounted for in this Agreement.

We are not suggesting there should not be an agreement with Mexico; we are suggesting that this Agreement is not acceptable to us and should not be acceptable to the Committee. Indeed, the fact that there are millions of people who violate the legal relationships between Mexico and the United States clearly indicates that the people of our two countries want and need a new arrangement. However, such an arrangement should be acceptable to the people of both countries, not just selected businesses and industries. It should protect U.S. consumers, U.S. workers, and the communities in which they live. It should do the same for the people in Mexico. The proposed agreement does not accomplish these simple but fundamental goals.

Side Agreements

Mr. Chairman, the side agreements will not assist Florida's fruit and vegetable growers. For example, the harmonization of environmental and labor standards between the United States and Mexico definitely will not happen during the phase-in period of the Agreement. In addition, the import surge agreement provides only an "early-warning" system with no real help on damaging surges.

We are particularly concerned that the environmental and labor side agreements will not achieve their desired goals of ensuring that each party enforces its own statutes and regulations. This will give Mexican growers a tremendous, unfair, competitive advantage over our growers. The proposal will allow Mexico to maintain its present level of non-enforcement of environmental, labor, sanitary, phyto-sanitary, food safety, and other laws. The heart of the proposal is to determine whether a party shows a persistent pattern of non-enforcement of its laws which is unjustifiable. None of these terms is defined. We submit to you that it will be impossible to prove such a claim. Moreover, and more importantly, these provisions appear intended to deal with actions that happen only after enactment of this Agreement. We submit to you that at this time Mexico does not enforce its laws and, under any ordinary reading of such language, would be in violation of such provisions. However, this apparently will not be addressed and, by not addressing it, our growers will be disadvantaged because they must compete with growers in Mexico who are subject to laws which are not enforced. Failure to achieve harmonization in this Agreement locks in an artificial competitive advantage for our competitors in Mexico. This is not equitable; nor is it right or even sound public policy; but, it is correctable. The Agreement must be changed to provide fair competition for our growers in our own market.

Safeguard Provision

We need a price-based safeguard provision in this Agreement. The volume-based mechanism currently found in the NAFTA cannot react quickly enough in response to volatile fruit and vegetable markets. We also are concerned that the mechanism will encourage groves to plant early so that their product can be marketed in the early part of the tariff window. This will likely cause depressed prices early in the season -- the opposite of its intended effect. A price-based safeguard, on the other hand, will provide a quick response to changing market conditions, and will not affect planting schedules.

U.S. Fruit and Vegetable Growers

As with many issues, the issues surrounding this Agreement are complex and difficult. Winners and losers have been identified and issues of agreement and disagreement also have been pointed out. Fruit and vegetable growers across the country fall on different sides on this Agreement. A number of commodity groups believe they will benefit by this Agreement and they are working to get it passed. On the other hand, there are many fruit and vegetable groups and others in agriculture who oppose this Agreement because they believe it will harm them. It is more than ironic and interesting that there are more and more groups speaking up and opposing this Agreement. In fact, groups like the Wheat Growers are changing their positions once they analyzed how this Agreement will work or not work for them.

We believe the provisions in this Agreement and in the side agreements will not mitigate the harm to fruit and vegetable producers and their communities. In addition, we firmly believe this Agreement locks in an unfair competitive advantage and that this unfair advantage has neither been recognized nor addressed. We believe Congress is making a significant food policy decision in considering this Agreement. If it is passed, for the first time Congress will have determined that an important part of Americans' food should come from foreign countries. We don't believe we are overstating the case. The precedent this sets should not be taken lightly and without further debate.

Conclusion

Mr. Chairman, FFVA continues to have significant concerns about this Agreement and the proposed side agreements. We believe this Agreement will substantially harm Florida agriculture, and fruit and vegetable growers in particular, unless additional agreements are negotiated that harmonize labor and environmental standards, and provide adequate safeguard measures for all perishable commodities. Until this is done, we will urge our Congressional delegation and the rest of Congress to oppose it.

We thank you for the opportunity to present our views.

Florida Fruit &
Vegetable Association

4401 E. Colonial Drive
Post Office Box 140155
Orlando, Florida 32814-0155
(407) 894-1351 • Fax (407) 894-7840

David B. Land, President
John C. Norris, Vice President
Michael J. Stuart, Executive Vice President

Position Statement

North American Free Trade Agreement

Florida Fruit & Vegetable Association (FFVA) – an organization that represents Florida's vegetable, citrus, tropical fruit and sugar cane growers – believes the North American Free Trade Agreement (NAFTA) as presently written will harm the winter fruit and vegetable industry.

Numerous governmental and private organization studies have examined the potential impact of the proposed agreement on the U.S. economy. The U.S. International Trade Commission (ITC) in February, 1991, reported that the winter fruit and vegetable industry in the United States would suffer losses in employment and production as a result of a free trade arrangement with Mexico. Subsequent studies have confirmed these findings, including a recently-released report by the Council for Agricultural Science and Technology (CAST).

In an effort to prevent potential damage to the industry, FFVA and other agricultural groups representing the fruit and vegetable industry in the United States worked cooperatively with the Bush Administration, and subsequently the Clinton Administration, to develop provisions within the agreement that would provide Florida producers the opportunity to compete on an equitable basis. To date – despite good faith efforts – neither the agreement itself, nor the side agreements, contain the kind of substantive measures needed to prevent harm from occurring to the industry.

FFVA's position on the agreement has remained constant throughout the negotiation process. Specific measures designed to mitigate harm to the industry must be included in the NAFTA or FFVA recommends that Congress reject the agreement. The specific measures are:

1. Tariff phase-out: Sensitive winter fruit, vegetable, and citrus commodities must be provided a transition period that affords producers of these commodities with the maximum time for adjustment.

2. Safeguards: A price-based special safeguard mechanism for perishable commodities must be included. Markets for these commodities are too sensitive and react with too much speed to be adequately addressed with the volume-based mechanism currently found in the agreement.

3. Labor and Environmental Standards: Mexico's occupational safety and health, pesticide, and environmental standards must be harmonized with the United States prior to the implementation of the agreement. No tariff reductions or other provisions of the agreement should be implemented until equivalent regulatory and enforcement practices are achieved.

4. Data Collection: A database must be developed and maintained on the U.S. and Mexican agricultural sectors for the purpose of assessing the agreement's impact on the industry.

Congress of the United States
House of Representatives
Washington, D.C. 20515
March 11, 1993

The Honorable Bill Clinton
President of The United States
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20505

Dear President Clinton:

The North American Free Trade Agreement and its impact on Florida's $6.2 billion agricultural industry is of great concern to the Florida Congressional delegation.

We have attempted to monitor negotiations in an effort to make an adequate assessment of NAFTA's effect on Florida. In May of 1992, the delegation met with former U.S. Trade Ambassador Carla Hills. In September of 1992, the delegation also discussed the impact of NAFTA with Florida agriculture representatives to assess industry concerns.

On February 24, 1993, the delegation again met with individuals representing all of Florida agriculture. Very valid and significant concerns were brought to our attention outlining the economic damage NAFTA, as proposed, will have on Florida agriculture.

While many of us believe the agreement has the potential for long-term benefit to the United States, the short-term expense of NAFTA in its current form is borne in large measure by Florida agriculture.

In an effort to make NAFTA the best possible trade agreement for our country and for the State of Florida, we would like to take this opportunity to outline recommendations brought to our attention by Florida's agriculture industry.

1) Mexico's environmental protection practices must be harmonized with U.S. standards. This objective must be achieved before any tariffs or other trade provisions of NAFTA are reduced.

2) Mexico's occupational, worker safety, and health standards must also be harmonized with U.S. standards. This objective must be achieved before any tariffs or other trade provisions of NAFTA are reduced.

All retraining for displaced workers including agriculture workers in the United States must be fully funded with appropriations from the U.S. Treasury.

3) To assure harmonization of the environmental and labor regulations in Mexico, provisions must be made in a side agreement to mandate the effective monitoring and enforcement of compliance efforts in Mexico.

4) A database of Mexican and U.S. agriculture, trade, production and commerce must be developed, maintained and funded in order t assess NAFTA's impact on the agriculture sector. The database should have the capability to track commodity specific data for import sensitive crops, information on the agricultural workforce, trade levels and environmental conditions in major export-producing regions.

5) A price-based and expedited special safeguard mechanism for sensitive agricultural commodities must be included in the agreement. Agricultural commodity markets are too volatile and react with too much speed to be addressed adequately with the volume-based safeguard mechanism found in the current agreement. This price-based special safeguard mechanism should apply to all import sensitive agricultural commodities. Language regarding specific commodities has already been brought to the attention of U.S. Trade Representative Mickey Kantor.

6) Mexico must not be allowed to ship to the United States any commodity which Mexico is not at the time already verifiably self-sufficient. This self-sufficiency can not be achieved by substituting another commodity in order to reduce Mexican domestic consumption of the commodity which Mexico desires to ship to the United States.

We respectfully request the inclusion of these recommendations as side agreements are formulated to the North American Free Trade Agreement. We look forward to hearing from you on these issues as soon as possible.

Sincerely,

Tom Lewis
Rep. Tom Lewis

Karen L Thurman
Rep. Karen Thurman

Chas T. Canady
Rep. Charles Canady

Corrine Brown
Rep. Corrine Brown

Alcee L. Hastings
Rep. Alcee Hastings

Ileana Ros-Lehtinen
Rep. Ileana Ros-Lehtinen

Rep. Harry Johnston

Rep. Porter Goss

Earl Hutto
Rep. Earl Hutto

Bill McCollum
Rep. Bill McCollum

Rep. Dan Miller

Mike Bilirakis
Rep. Mike Bilirakis

Lincoln Diaz-Balart
Rep. Lincoln Diaz-Balart

Tillie K. Fowler
Rep. Tillie Fowler

Rep. Cliff Stearns

Rep. John Mica

Bill Young
Rep. Bill Young

Jim Bacchus
Rep. Jim Bacchus

Clay Shaw
Rep. Clay Shaw

Pete Peterson
Rep. Pete Peterson

Carrie P. Meek
Rep. Carrie Meek

Connie Mack
Senator Connie Mack

Peter Deutsch
Rep. Peter Deutsch

STATEMENT OF FRIENDS OF EARTH

Mr. Chairman and members of the Subcommittee:

Good Morning. I am Andrea Durbin, Policy Analyst with Friends of the Earth. Friends of the Earth is a national, nonprofit environmental organization with 50,000 members and supporters. We have affiliated organizations in 51 countries and work on a wide range of national and international environmental issues.

We appreciate this opportunity to share our views on the North American Free Trade Agreement (NAFTA). After long and careful review of the text of the NAFTA, as well as the text of the Side Agreement on Environment, we have concluded that the NAFTA, as currently written, is not in the environmental interest of the three countries that are parties to the agreement.

We believe that it is possible to structure a trade agreement that will directly link economic growth and the improved social and environmental conditions of the three countries, but this agreement does not achieve these ends. We urge the members of the Subcommittee to vote against this agreement and put your full energies behind its renegotiation.

Since we last spoke before the full Committee, the Administration has concluded a side agreement on the environment. We want to acknowledge the Administration's efforts in this undertaking and recognize the advancements of environmental issues in the trade arena over the last few years. Trade and the environment will be intricately linked from now on. However, the environmental side agreement does little to address the fundamental environmental questions raised by NAFTA.

Friends of the Earth believes that NAFTA's potential to create environmental problems and its lack of regard to existing problems is serious enough that it should be rejected, in spite of what was negotiated in the side agreement. We agree with the Federal District Court which ruled that "NAFTA, by its very terms, sets forth criteria that may form a basis for challenging various domestic health and environmental laws"... and that "a state law that conflicts with the NAFTA is preempted".

We believe that rejection of this agreement, and commitments to negotiate another, is better than approving this agreement in its flawed form, particularly since the NAFTA will serve as a model for future integration with the rest of Latin America.

We do not subscribe to the idea that increasing economic growth will automatically lead to improved environmental protection. We believe that economic growth enables a country to better protect the environment, but it will not necessarily follow without some guarantees and explicit commitments within the agreement.

In our testimony today we will:

1) summarize some of the issues that have not been addressed in the environmental side agreement;

2) analyze the contents of the side agreement;

3) explore how the side agreement would address existing situations.

I. ANALYSIS OF THE ENVIRONMENTAL SIDE AGREEMENT

Many crucial environmental issues are not addressed at all in the side agreement.

For example, the agreement:

1. does not ensure that NAFTA will not be used by our trading partners to weaken federal or state environmental, health and safety laws that may impact trade.

2. does not make the basic dispute resolution process of NAFTA more open or democratic by allowing for public participation or requiring a more representative process.

3. does not create a comprehensive border clean-up plan, based on the polluter-pays principle.

4. does not deter companies from relocating to countries with weaker or non-enforced environmental standards.

5. does not address the serious impacts of NAFTA on the conservation of natural resources -- mining, timber and agricultural impacts.

6. does not safeguard laws which protect us against products produced in an environmentally destructive manner.

7. does nothing to solve the ongoing problem of U.S. owned companies failing to return toxic wastes to the U.S. for proper treatment.

A Tri-National Commission: A Lot of Talk, But No Real Teeth

The side agreement is limited and weak, consisting only of (1) the establishment a tri-national Commission for Environmental Cooperation (CEC), (2) an exhaustive mechanism to bring disputes between countries regarding lax enforcement of domestic environmental laws and (3) an announcement that the United States and Mexico will continue discussion about a proposed border institution to leverage bonds that would build infrastructure along the border region.

Because of the limited authority of this commission, we have to conclude that this new institution will have little power to protect the environment from the impacts of NAFTA. In fact, it could be negative for the environment because it will redirect resources that could otherwise be used for border clean-up and building community infrastructure.

A major function of the Commission is to gather information in response to complaints. However, the Commission cannot conduct its own investigations, but must rely on information provided by the governments, not companies. It cannot investigate a workplace or company directly. If a government finds an information request excessive or unduly burdensome, the government may deny the request for information.

The Commission can draw attention to environmental problems and it can make recommendations. Beyond that it can go no further. In short it is little more than a forum for discussion.

A Long and Exhaustive Process for Enforcement

The centerpiece of the Commission is its ability to review whether or not each Party is enforcing its own domestic environmental laws. Unfortunately, this power is so circumscribed that it is effectively meaningless.

First, the definition of environmental law in the agreement is narrow and explicitly excludes laws regulating the exploitation of natural resources from the enforcement provisions. The Commission can only consider laws related to the prevention or control of pollutants, hazardous substances, and the protection of wild flora and fauna, including endangered species. By narrowly defining environmental laws in this way, laws such as food safety regulations or public health measures are excluded.

In addition, only the repeated failure to enforce an existing law is reviewable by the Commission. Environmental problems that are caused because of a lack of regulation are not subject to review because there is no law to review. This kind of backward criteria leads to a downward pressure against establishing an environmental regulatory structure.

For those narrow laws that are covered by the agreement, there are other criteria that must be met to determine whether or not a government can be penalized for not enforcing its environmental laws. The agreement allows for a Party to not enforce its environmental laws if it "reflects a reasonable exercise of the agency's or the official's discretion" or if it "results from a bona fide decision to allocate enforcement resources to violations determined to have higher priorities" (annex II), creating a gigantic loophole for governments to argue their way out of a complaint.

Finally, in order to be reviewable, there must be a "persistent pattern of nonenforcement", which is defined as "a sustained or recurring course of action or inaction" report, which requires the approval of two-thirds of the Parties. Still the governments can refuse to answer a citizen's request, or scale back the request.

The negotiators have made progress in the dispute process of the Commission, when compared to NAFTA's dispute resolution. It will set up a roster of panelists that include panelists that have environmental expertise. However, this does not extend to NAFTA's dispute panel where environmental experts are not mentioned or required. This difference is crucial because any challenges to U.S. environmental, health or safety laws will be resolved in the NAFTA dispute process.

II. CARBON II: A HYPOTHETICAL CASE

In recent weeks there have been a number of press reports about the Carbon II coal fired power plant facility under construction in Mexico near the U.S. border town of Eagle Pass, Texas, 140 miles southeast of Big Bend National Park. The coal fired plants may be exporting energy to the United States.

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It would be impossible for an individual or an organization like Friends of the Earth to initiate the process which might eventually lead to formal sanctions. Such actions can only come at the request of governments, and with the support of two-third's of the parties.

If the U.S. Government decided to bring a formal complaint about Carbon II it would have to prove that the pollution is being caused by Mexico's lax enforcement of an existing law, not for the failure to set regulatory standards. According to the Wall Street Journal, the Mexican embassy has already said that the plant "meets or exceeds all applicable national and international pollution standards". If that is true, the Commission can do nothing.

(annex IV). This definition is extremely vague as to the length of time such a behavior must be sustained before a complaint can be brought. Without a more specific definition, the determination of persistent pattern of non-enforcement is left subjective and undetermined: it could be one year or five years of nonenforcement.

Enforcement: Punishing Governments, Not Polluters

The Administration has argued that the "real teeth" in this agreement is the ability to penalize a government for nonenforcement through sanctions. The compromise struck between the three countries would allow sanctions to be levied against the United States and Mexico, and fines against Canada, enforced through the Canadian courts.

Much of the debate has focused on Mexico's record of enforcing environmental laws, rather than on the behavior of industries and whether or not they are complying with the law. We continue to believe that the industries themselves must be held responsible and accountable for their own behavior. But this agreement punishes governments for not enforcing, not industries for not complying.

If, after a long and exhaustive process, the Commission decides that sanctions or fines can be levied, the agreement limits the amount of the penalty to no more than $20 million the first year, and .007% of the three-way trade between countries thereafter (which is roughly $20 million this year). Although $20 million appears to be a significant amount, when it is a fine against governments, it is relatively insignificant. Despite what the Administration has argued, it is unlikely that the government will pass on that cost to the offending industry. Structuring the agreement this way puts the burden on governments, rather than encouraging companies to comply with the law.

Resolving Disputes in the Commission

Like the NAFTA itself, the side agreement establishes a dispute resolution process to allow Parties to bring complaints about non-enforcement. Only nonenforcement cases will be resolved by this mechanism. All other environmental cases will be heard in NAFTA's dispute resolution mechanism, which still remains closed to the public, and unrepresentative of environmental interests.

To see the disparity between the side agreement and the NAFTA, one only needs to look at the dispute resolution process. In order for a Party to establish a panel in the Commission, it must gain the support of two-thirds of the Parties. Compare that requirement to the NAFTA dispute resolution which requires that only one Party needs to approve in order to form a panel. The criteria in the environmental side agreement are consistently more difficult to meet than in the NAFTA.

Only governments, not citizens, can request a panel. Although citizens can bring a complaint to the Commission, citizen complaints do not lead to the formation of a panel. If a citizen meets the regimented criteria that the Commission requires to be a legitimate consideration, the most the Commission can do in response to that complaint is issue a report, which requires the approval of two-thirds of the Parties. Still the governments can refuse to answer a citizen's request, or scale back the request.

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If these difficult points were proven, Mexico could then simply claim that enforcing pollution control on coal-fired plants is not a priority and the lack of attention "results from a bona fide decision to allocate enforcement resources to violations determined to have higher priorities" such as air pollution in Mexico city.

If the U.S. were able to surmount these difficulties and succeed in levying sanctions, the most it could collect is $20 million dollars. According to the U.S. EPA the costs of installing scrubbers to meet U.S. air emission standards would be around $300 million simply to control sulfur dioxide, not to mention nitrogen oxide. Given such costs, at the end of the day, paying the fine would be a bargain for Mexico.

III. CASE STUDY OF RE-EXPORTING HAZARDOUS WASTES

Annex III of the 1983 La Paz Agreement and the 1988 Mexican Law of General Equilibrium require Maquiladora industries to export their hazardous waste to the country of origin for treatment and disposal. The thinking behind this agreement is that Mexico lacks facilities to treat these wastes in a manner equivalent to the treatment they would receive in the U.S.

The U.S.-owned Maquiladoras widely flaunt this law. The Environmental Protection Agency estimates that only about one-third of the hazardous waste generated in the Maquiladoras is returned to the U.S., leaving somewhere around 20,000 tons in Mexico.

This situation is not in the Mexican or the U.S. interest. The improperly dumped toxic wastes can lead to public health problems and huge long-term clean-up costs for Mexico. Industries may relocate to Mexico to take advantage of the situation and avoid the costs of proper disposal in the U.S. The problem is not isolated to Mexico, since the toxics can cross back into the U.S. through the air, water, or groundwater.

This whole topic is not addressed in the NAFTA, despite being one of the clearest, current, trade and environment problems between the U.S. and Mexico. We had hoped that the side agreements would address the problem, but, as with Carbon II, we see them doing little more than providing an opportunity to discuss the issue. In fact the agreement could provide political cover to allow this problem to persist into the next century.

If this issue were brought before the Commission, the politics would be somewhat different from Carbon II, since in the case of the failure to re-export hazardous wastes both the U.S. and the Mexican Governments are failing to meet treaty obligations. Since the approval of two NAFTA country governments is required to initiate a formal enforcement proceedings, it is unlikely this situation would ever be considered. Furthermore, if the issue were considered, the U.S. and Mexico could quickly announce that they had reached an agreement on the issue -- whether or not any real action would ultimately take place.

We therefore believe that the Side Agreements will deflect action on this crucial area for the immediate future. Furthermore, since NAFTA gradually phases out the Maquiladora program as it phases out tariffs, the effect is to provide cover for these corporate violations until the NAFTA itself steps in and makes the dumping of hazardous wastes legal. In short, desperately needed control and prevention of industrial toxics will not take place.

IV. CONCLUSION

The environmental side agreement did not serve to resolve some key conflicts between increased trade and environmental protection. Instead, it creates yet another international institution that, given its weak powers, will be ineffective, and given the requirements for sanctions to be invoked, it is unlikely that they will be applied.

We still believe that a framework for integration is necessary within North America, but that framework needs to be dramatically recast to incorporate the goals of sustainable development, democratic participation and responsible corporate behavior.

TESTIMONY OF BRENT BLACKWELDER, VICE PRESIDENT FOR POLICY, FRIENDS OF THE EARTH

DELIVERED BEFORE THE SUBCOMMITTEE ON ENERGY AND POWER, COMMITTEE ON ENERGY AND COMMERCE

22 SEPTEMBER, 1993

Mr. Chairman and Members of the Committee:

My name is Brent Blackwelder. I am Vice President for Policy at Friends of the Earth. Friends of the Earth is a national, nonprofit environmental organization with affiliated organizations in 51 countries. We work on a wide range of national and international environmental issues. With me is Andrea Durbin, our Trade Policy Analyst. She recently returned from a trip to Mexico, where she had the opportunity to view some of PEMEX's facilities first hand.

We are pleased to have the opportunity to present our views on the energy implications of the North American Free Trade Agreement. Friends of the Earth is opposed to the NAFTA for a wide range of reasons and would urge the members of the Subcommittee to vote against the agreement. At the same time we would urge the Administration to begin negotiations on a new pact that would bring a more sensible order to trade relations among the countries of North America -- a NAFTA II.

From the outset we should make it clear that our views concerning the proper energy policy for the United States differ rather markedly from those espoused by the Administration that negotiated the North American Free Trade Agreement. We believe U.S. energy policy should feature the following two goals:

1) To dramatically increase the efficiency of the entire energy system from production through end-use;

2) To shift, as rapidly a possible, to renewable energy sources.

We are confident that the Subcommittee has heard many times and at great length about the benefits of applying these guiding principles and we will not elaborate on them here, except to point out that energy efficiency is a crucial component of global trade competitiveness. Efficient economies need to import less energy (or can export more) and, since energy is a smaller part of production costs, these economies find more of their products are competitive on the export markets.

Unfortunately, the NAFTA does not promote the goals of efficiency and renewables, but rather emphasizes business-as-usual.

I. INCENTIVES EXEMPTED

Quite simply the NAFTA and its side agreements do nothing to promote the efficient use of energy in any of the member countries.

One of our main objections to the nature of current trade agreements is that in their quest to root out so-called 'non-tariff' barriers, they infringe on areas that have long been the province of local, state, and national governments. We have seen this process most dramatically in the General Agreement on Tariffs and Trade (GATT). There the European Community has announced that it plans to eliminate a wide range of U.S. practices, from minority set-asides to subsidized western water for farmers as unfair trade practices. The EC has initiated formal GATT actions against two U.S. energy conservation laws -- Corporate Average Fuel Economy (CAFE) standards and the Gas Guzzler tax -- as unfair trade practices.

We bring up the GATT because the provisions of the NAFTA largely follow those of the GATT. Like GATT, the NAFTA seeks to weed out subsidies and exemptions granted to particular industries, since these allegedly skew the functioning of the free markets.

While in principle we believe that many of these decisions are social matters that should be resolved through democratic means, rather than through trade agreements, we would have at least expected that the agreement would have obligated all aspects of the energy sector to the same rules. Unfortunately that is not the case. In article 608.2 a broad exemption is granted to the oil and gas industry: "The Parties agree to allow existing or future incentives for oil and gas exploration, development and related activities in order to maintain the reserve base for these energy sources."

The U.S. oil and gas industry already receives a wide range of 'incentives' at taxpayer and environmental expense. Many of these exemptions are documented in Crude Awakening, a recent Friends of the Earth report on waste and inefficiency in the oil and gas industry. We append a chart from that report which points out how RCRA, Clean Water Act, Superfund, and other laws all contain broad exemptions for the oil and gas industry. This report also documents the incredible energy waste of the U.S. oil and gas industry, estimating that from well-head to gas tank, the oil industry currently looses about 236 million barrels of oil per year -- roughly the equivalent of 1,000 Exxon Valdez spills. NAFTA, by exempting incentives will simply allow this waste to continue unabated in the United States.

Perversely, the effect of the exemption for oil and gas incentives may pave the way for future challenges to incentives for either efficiency or renewable energy that governments at various level may be offering now or in the future. We can imagine that if an incentive for a renewable energy source began to be so effective as to eat into oil and gas profits, a NAFTA case could be launched in which the incentive was challenged as an unfair trade practice.

II. IMPROVING THE SITUATION IN MEXICO?

It is no secret that PEMEX, the Mexican Government's oil and gas monopoly, is an inefficient and highly polluting energy producer. Our staff's recent sight visit to the State of Tabasco certainly confirmed this situation.

Our colleagues in the energy industry will no doubt argue that U.S. investment in Mexico's energy sector, to the extent that it is allowed under NAFTA, would benefit the environment. To a limited extent, we agree with this analysis -- the potential is there for investments to improve the efficiency of the Mexican fossil fuels sector.

That said, we are not convinced that the NAFTA does anything to actually make that efficiency come about. The poor environmental record of PEMEX argues that the Mexican government will do little to regulate the oil and gas industry. NAFTA, in essence, relies on the goodwill of the foreign investors to bring about efficiency improvements and pollution reductions. As mentioned above, the U.S. oil and gas industry, already feeding off numerous exemptions has an extremely spotty record here. Furthermore, reports we receive from our affiliates around the world indicate that, once abroad, many of the U.S. oil companies comfortably satisfy themselves with meeting the lowest environmental standards they can get away with in the host country.

As a Subcommittee, you must ask yourselves if you believe that the oil industry's promises of heightened efficiency and clean-up in Mexico actually square with their successful efforts to exempt themselves from domestic U.S. environmental laws, or from the disciplines of the international free trade agreement. We believe that in the absence of some mechanism to compel exemplary behavior, the U.S. oil and gas industry will do little for Mexico's pollution problem.

III. THE ENVIRONMENTAL SIDE AGREEMENT WILL NOT IMPROVE THE ENERGY SITUATION, A CASE STUDY OF CARBON II:

The recently concluded Side Agreements on the Environment will do little to help with problems in the energy sector. To illustrate the ineffectiveness of the Commission structure we have analyzed what action might be taken to address the problems raised by the Carbon II electricity plant currently under construction near the U.S.-Mexico Border.

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IV. TRANSPORTATION EFFECTS IGNORED

In November 1989, the European Commission published a study of the environmental effects of the implementation of the Common Internal Market in 1992. While the Europeans are undertaking a more ambitious project than the proposed comprehensive North American trade Agreement, their preliminary analysis is a sobering confirmation of the environmental dangers of trade agreements.

The task force explored a wide range of effects, the most significant of which was the increase in transportation that would result from greater trade. The task force concluded that the Common Internal Market would increase interstate truck transport in the EC between 30 and 50 percent. According to the task force, "the growth impact of the Internal Market is likely to cause atmospheric emissions of SO2 and NOx to increase respectively by 8-9% and 12-14% by 2010."

While geographic differences between North America and Europe mean that these results cannot be translated directly, a dramatic expansion of truck traffic along the U.S.-Mexican border seems inevitable. The EPA's Review of U.S.-Mexico Environmental Issues points to a quadrupling of truck traffic between the U.S. and Mexico by the year 2000, even without NAFTA. With NAFTA the total will go higher; the Review suggests that upwards of 12 million trucks may be crossing the border each way each year by the turn of the century -- up from slightly under 2 million in 1990.[1] The resulting pollution could be significant.

With the inclusion of Canada, one can reasonably expect growing transport across the U.S. to Canadian markets as well, although we do not have estimates of this effect.

The overall increase in transport would not only have effects on SO2 and NOx emissions, but would also increase emissions of CO2, the principal greenhouse gas.

The task force goes on to conclude that in the European case:

> "Without proper incentives, energy demand (and corresponding pollution) appears to be positively correlated with additional economic growth. The main policy lesson of the energy shortages of 1974 and 1979 may be that a proper incentive, such as higher energy prices, is critically important in breaking the link between economic growth and energy consumption. Only if the scarcity of natural resources is properly reflected in the use of price incentives and/or regulations, will economic growth associated with the completion of the Internal Market lead to overall economic efficiency."

We concur with the conclusion of the task force and note that the NAFTA completely lacks these sorts of compensatory measures.

CONCLUSION

In short, NAFTA holds the prospect for increased energy use, particularly fossil fuel use, in the U.S., Mexico and Canada, especially in the transportation sector. Current exemptions from environmental laws and subsidies to the petrochemical industry will continue, while inducements to the alternative energy industry may be vulnerable to challenge as non-tariff barriers. As the case of Carbon II illustrates, we will be powerless to stop transborder pollution from power-generating facilities. Furthermore, these facilities may gain a competitive advantage in the electricity market because they need not abide by as strict a set of pollution control laws.

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[1] Review of U.S.-Mexico Environmental Issues, February, 1992 p.177-178

ENVIRONMENT

Power Plants In Mexico Cast Pall Over Nafta

By Andy Pasztor

Staff Reporter of The Wall Street Journal

Mexico's drive to build a series of pollution-prone power plants has U.S. environmental officials fuming, and threatens to erode congressional support for the North American Free Trade Agreement.

The lightning rod for the dispute is the $1.8 billion, coal-fired generating plant called Carbon II, under construction 20 miles south of the Texas border town of Eagle Pass, which is little more than an hour's drive from San Antonio.

The facility, which will use a low-grade, high ash coal from an adjacent Mexican strip mine, lacks the state-of-the-art pollution control equipment required in this country. And U.S. officials project the 1,400-megawatt plant's emissions, when combined with pollutants from a sister facility already operating nearby, will significantly degrade air quality in parts of the Southwest.

Angered by Mexico's decision to stick with 1970s-era control technology to hold down costs, Environmental Protection Agency and Interior Department officials have issued a litany of warnings about the impact north of the border. Unless expensive "scrubbers" are installed to remove sulfur, according to the latest U.S. Park Service estimate, the plume from Carbon II could reduce visibility by 30% or more at Big Bend National Park about 150 miles to the northwest. U.S. regulators say that the roughly 230,000 tons of sulfur dioxide the plants together are expected to spew out each year would make them the 10th largest source of sulfur dioxide pollution on the continent. Interior officials say that will contribute to acid rain and exacerbate formation of haze in pristine areas, probably drifting all the way to Arizona's Grand Canyon.

The plan has U.S. environmental watchdogs seeing red. "This is a very big deal, and it's definitely coming to a head," says one high-ranking Washington environmental official. The first of Carbon II's four units is to begin commercial operation this month.

Mexico, for its part, maintains that standards for judging visibility are subjective" and "it is premature to say that

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Pall Over Talks on Trade Accord

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any particular system or device" would help alleviate potential problems. The plant "meets or exceeds all applicable national and international" pollution standards, according to the Mexican Embassy in Washington, which also notes that Carbon II will release proportionally less pollution than many older U.S. facilities.

The increasingly acrimonious debate cuts to the heart of administration assertions that Mexican environmental standards generally are comparable to those in this country. And questions about Mexico's environmental commitment are heating up just as congressional opposition to the trade pact is building.

Carbon II "is a perfect example of how we could make Nafta work, or how it could actually end up making things worse in the environmental arena," says Scott Royder, a Sierra Club official in Texas. "We face a real turning point."

SCEcorp., the big Rosemead, Calif., utility that markets itself as among the nation's most environmentally sensitive, is also seeing its "green" image smudged by its association with Carbon II. SCE hopes to own 49% of the plant and run it through its Mission Energy unit, as part of a new international market it wants to develop. But after investing more than $200 million there, frustrated SCE executives find themselves not only embarrassed at home, but caught in a diplomatic tug-of-war that they fear could prompt the Mexican government to retain ownership of the disputed plant.

To help enhance its credibility, SCE recently hired Paul Volcker, the former head of the Federal Reserve Board, as a consultant on the project.

Beyond SCE's quandary, the debate has broad implications for U.S.-Mexican relations. Mexico's ambitious long-term industrial development blueprint, which envisions several similar plants that would use Mexican oil supplies or burn the dirty, high-sulfur U.S. coal that's being squeezed out of the domestic market, worries some high-level EPA officials.

More than $3.5 billion in privately funded generating stations are in the works throughout Mexico, and at least two more large, coal-burning power plants along the border are being considered.

Mary Kelly, of the Texas Center for Policy Studies, an Austin-based think tank that has attempted to assess Carbon II's regional impact, emphasizes the "serious weakness of existing binational agreements" to crack down on pollution. Squabbles over the plant "illustrate the inadequate nature of the enforcement tools we will have," even if the trade accord goes into effect, she argues.

U.S. lawmakers consider Carbon II a test case of how the two countries will hammer out cross-border pollution problems under a largely voluntary Nafta side agreement that pledges cooperation on pollution controls. Rep. Henry Waxman, a California Democrat influential on environmental matters, says the plant "points out a fundamental flaw in the way we have viewed U.S.-Mexican relations." The side agreement appears too weak to prevent Mexico from "luring away industries from the U.S. with lax controls," Rep. Waxman argues. "The questions about the environment have disturbed me enough that I don't think I can vote for it."

And Rep. Cardiss Collins (D., Ill.) says the plant highlights low Mexican environmental standards. The EPA's analysis, she says, confirms "that the Mexican standard for particulate emissions from power plants is 10 times weaker than the U.S. standard," and the sulfur-dioxide limit eight times weaker.

Since SCE's Mission Energy unit hasn't proposed to sell any of the electricity to U.S. customers, U.S. regulators have no binding enforcement authority over Carbon II's operation. Still, the World Bank has pulled out of the project because of environmental concerns. Three House subcommittees are delving into the matter. And just last month, the State Department quietly adopted a harder line, acknowledging the seriousness of the environmental concerns and initiating formal government-to-government discussions.

Efforts so far have been purposely low-key, and Mexican officials in the past few days have sounded somewhat more conciliatory.

But Mexican officials have told SCE that they have more pressing pollution-abatement spending priorities in smog-choked Mexico City than at the Carbon II plant, which hasn't been labeled a direct health hazard and where scrubbers would cost $300 million or more to install.

The stakes are high enough, however, for all sides to seek a face-saving compromise. Despite concerns by some subordinates, EPA Administrator Carol Browner strongly supports the trade pact.

Mexican leaders, by the same token, want to avoid hasty action that could scare off overseas investors or sidetrack the industrial growth that the electrification drive is to spearhead. And thousands of mining jobs depend on Carbon II.

The position of SCE Chairman John E. Bryson is that emissions from Carbon II, which he calls "a modern, relatively clean" facility by world standards, won't violate U.S. visibility standards. SCE can't afford to pay for installing scrubbers, Mr. Bryson maintains, and, anyway, he argues it's the place of the Mexican government to decide if additional controls are necessary and then pass the cost on to Mexican ratepayers. Still, Mr. Bryson suggests hopefully that "it's not impossible that there are things that can be done at reasonable cost" to reduce emissions.

Under Mr. Bryson, himself a prominent figure in environmental affairs, SCE's Southern California Edison unit has focused on voluntarily reducing emissions in California. It has 144 separate environmental or conservation programs in place, including a center to help businesses meet clean-air goals.

Carl Pope, Sierra Club executive director, credits SCE with "doing a very good job operating within the very constrained regulatory environment" in Southern California. "But it's a different story," he says, "when the controls are lifted."

BIG OIL'S BIG EXEMPTIONS

RCRA - The Resource Conservation & Recovery Act

Purpose: To foster safe management and disposal of waste; defines hazardous wastes and chemicals to be regulated as hazardous; prohibits disposal of hazardous waste, except in permitted facilities.

Exemption: Drilling fluids, produced waters; and wastes associated with oil and gas exploration, development, or production.

Other: Petroleum pipelines exempt from RCRA; weaker underground storage tank regulations; cleanups of leaking underground storage tanks exempt from toxicity characteristic; above ground crude oil storage tanks exempt from RCRA; used motor oil considered "non-hazardous."

SUPERFUND - Comprehensive Response, Compensation & Liability Act

Purpose: To foster the prompt cleanup of hazardous substances released into the environment, mostly in toxic waste dumps.

Exemption: Petroleum, natural gas, and synthetic gas exempted from this law's definition of hazardous substances.

The Clean Water Act

Purpose: To eliminate pollution discharges into the nation's waterways through the National Pollution Discharge Elimination System (NPDES). NPDES permits required for surface water discharge.

Exemption: Stripper wells (less than 10 bbls/day) exempt from zero discharge requirement for produced water & associated wastes;

Exemption: West of 98th meridian, produced water from any well may be discharged into navigable waters or used for wildlife or irrigation under "beneficial use" provisos.

Clean Water Act and Rivers & Harbors Act

Special Provision: Under the Army Corps of Engineers regulation of dredging and construction activities in the coastal and offshore areas of the United States under Section 404 of the Clean Water Act and Section 10 of the Rivers and Harbors Act there is a special provision allowing for "nationwide permits," called no. 8 permits, which is type of blanket permit that does not require the same level of detail and environmental review that specific permits due. Oil and gas structures, in other words, do not have to go through the same level of review that a port authority might have to in building or expanding its facilities.

The Safe Drinking Water Act

Purpose: To prevent contamination of drinking water sources, including groundwater; regulates contaminants in drinking water, and also regulates deep-well injection of wastes.

General Provision: House Report notes law's intent "not to authorize needless interference with oil and gas production." Oil and gas production, in other words, is accorded preferential treatment over protecting drinking water.

Exemption: Oil & gas wastes — exempt from RCRA "hazardous" definition — allowed to be injected in less regulated, less structurally sound Class II underground waste wells. Some 170,000 Class II wells in 31 states are used for waste disposal and for enhanced oil recovery. Class II wells are also subject to less strict regulatory provisions.

Exemption: Existing owners and operators — estimated at 70% of all Class II wells — exempt from abandoned well "area of review" requirement to search for and remedy improperly plugged/leaking wells in nearby area.

Other: Maximum allowable daily fines for past or current violations by oil and gas operators are half the level specified for others under EPA Administrative Orders.

Hazardous Liquid Pipeline Safety Act

Purpose: Regulation of Hazardous Liquid Pipelines and establishment of minimum federal safety standards.

Exemption: Low-pressure, crude oil gathering lines of a diameter of six inches or less, and located in rural areas, are exempt from regulation under section 209.

Clean Air Act of 1990

Purpose: To improve public health by controlling and reducing air pollution.

Exemption: Oil & gas platforms in federal offshore waters of Texas, Louisiana, Mississippi & Alabama are exempt from air pollution regulations required of onshore rigs.

Other: Rule to regulate volatile organic compounds (VOCs) at marine-loading terminals has not been issued, and EPA officials say that one of the largest sources of such emissions — the Valdez, AK terminal with 43,000 tons annually — may be exempted if it is determined there is no significant health risk.

THE POLITICS OF EXEMPTION

Emergency Planning & Community Right-To-Know Act

Purpose: To publicly disclose information about toxic chemicals and potential chemical hazards under the Toxic Release Inventory (TRI) as required by the 1986 Superfund Amendments; also to encourage emergency response to chemical accidents.

Exemption: The following oil- and gas-related industrial segments as classified by the Standard Industrial Classification (SIC) system, are excluded from the TRI: Oil and Gas Extraction, Petroleum Pipelines, Marine Cargo Handling Facilities, Gas Production and Distribution, Petroleum and Petroleum Product Wholesalers, Underground Injection Wells, Gasoline Service Stations, and Fuel Oil Dealers.

Oil Pollution Act of 1990

Purpose: To reduce the risk and frequency of, and where possible prevent, oil spills in U.S. waters; establishes double hull tanker requirement and other provisions for spill liability, compensation and spill clean-up response.

Exemption: Barges exempt for double hull requirement; must meet other "secondary containment" requirement by year 2015.

March 4, 1993

The Hon. Mickey Kantor
U.S. Trade Representative
600 17th Street, NW
Washington, D.C. 20506

Dear Ambassador Kantor:

As we all acknowledged on February 23, 1993, during a meeting with you, a number of environmental, conservation, health, and safety problems remain in the present NAFTA. We, the undersigned, hope that this letter clarifies the position of our groups with respect to the President Olinton's NAFTA package. Successful resolution of these problems would not only promote sustainable hemispheric trade, but would also send a clear message to the Uruguay Round negotiators in Geneva. While all the groups signed to this letter acknowledge the NAFTA problems identified, individual groups reserve the right to offer varying solutions to these problems.

First and foremost, we support the President's call for an "environmental" supplemental agreement that will establish a strong North American Commission on the Environment (NACE). However, such a supplemental agreement must clarify various other provisions of the existing NAFTA. In our opinion, these elements of a supplemental agreement should be in the form of a protocol, legally binding upon any party to NAFTA, and of equal stature to NAFTA. Some groups have drafted protocol language for the NACE and are presently drafting similar language for the protocol's other provisions that will be forwarded to you shortly.

I. ENFORCEMENT:

Trade should not be based on weak enforcement of established standards. Enforcement is a crucial issue. We should not subject U.S. citizens to economic, health, safety, or environmental injury as a result of weak enforcement of standards elsewhere. Nor should our NAFTA partners be harmed by a failure of U.S. enforcement. Sanctions, including both trade and non-trade measures, must be available to ensure compliance. Recognizing that sovereignty concerns exist, we propose that a trilateral mechanism, the North American Commission on the Environment (NACE), as discussed below, be established with sufficient powers to ensure adequate enforcement of existing and future laws.

II. NAFTA'S ENVIRONMENTAL OMISSIONS AND AMBIGUITIES:

We recognize the President's desire not to reopen the NAFTA text. Yet, there are provisions in the present text that are either contradictory or unclear, and work to the detriment of environmental, conservation, health, and safety protection. The Bush NAFTA also completely fails to address several important concerns. Therefore, the topics listed below are areas where a NAFTA protocol must rectify present NAFTA omissions or ambiguities.

A. ENVIRONMENTAL REMEDIATION:

Despite the fact that the several border agreements between the NAFTA parties have been considered separate from the present NAFTA, we do not believe that NAFTA should go forward until enforceable commitments have been made to clean up the border regions. Estimates for the U.S.-Mexico border clean-up range from $ 5 to 15 billion. The U.S.-Canada border also suffers from trade induced problems.

B. FUNDING:

A secure source of funding for proper infrastructure development, environmental enforcement, increased investigation, and clean-up for all NAFTA-related environmental programs is vital. Because national appropriations processes do not provide a secure source of funding, we believe that designated funding sources, based on fairness and the "polluter pays" principle, must be developed as a prerequisite to implementation of NAFTA.

Ideas that deserve attention include: a)"snap-back" tariffs applied to sectors with lax enforcement of existing standards; b) a small transaction fee on all goods and services that could be phased out over a specified number of years; c) a directed "green" fee; d) an environmental countervailing duty on economic activity that is environmentally unsusustainable or below standard; e) "earmarked" tariffs, which could be phased out during the first 10-15 years of NAFTA; and f) development of a "green investment bank," which could utilize established trust funds to leverage additional money through bond proposals. Regardless of which funding scheme(s) is eventually utilized, we believe it is imperative to channel such funds back into environmental infrastructure improvements, enforcement, border inspection, worker transition programs, certain farmer support programs, and funding of the NACE itself.

C. PUBLIC PARTICIPATION AND TRANSPARENCY

Public accountability of governing bodies is an essential element of environmental protection and democratic governance. Accountability includes the rights of notice, comment, the opportunity to participate, the ability to bring complaints, and access to decision-making processes. For the NAFTA package to address these serious concerns, the process of crafting this protocol must provide public accountability and the protocol itself must ensure accountability in the administration and implementation of the NAFTA package.

The current NAFTA dispute panel provisions completely fail to provide citizens from the NAFTA countries with the means to obtain information from, and participate in, resolution of trade disputes concerning environmental, conservation, health, and safety matters. The protocol must provide the public with participatory rights in whatever forum ultimately resolves trade/environment disputes under NAFTA. Furthermore, the NAFTA package must ensure that the public can participate meaningfully in the remaining negotiations of NAFTA. Prior NAFTA negotiations failed to provide the public with sufficient participatory rights, resulting in the deficiencies outlined in this letter. The upcoming negotiations of the NAFTA supplemental agreements provide an ideal opportunity to, at least in part, rectify NAFTA's failure to embrace democratic principles.

D. INTERNATIONAL AND DOMESTIC PRODUCTION/PROCESS (PPM) STANDARDS:

Trade law must recognize that how a product is produced is as important as the quality of the product itself. Only by recognizing process-based trade restrictions will governments retain their ability to keep high domestic standards without placing domestic producers at a competitive disadvantage. Although Article XX of the General Agreement on Tariffs and Trade (GATT) provides for health and natural resource conservation exceptions, these provisions have been constricted by recent GATT panel decisions. Without explicit clarification, NAFTA will repeat the mistake of GATT panels and the Dunkel draft by incorporating unacceptable provisions or interpretations of GATT (e.g., Article 103, NAFTA). For example, laws that would restrict the import of products made with CFCs, timber produced in an unsustainable fashion, or the inhumane treatment of animals could be subject to challenge under NAFTA.

The infamous tuna/dolphin dispute highlights the political difficulties that can be involved in a dispute concerning production process issues. In the tuna/dolphin case, a GATT panel held that harvesting methods were not a GATT-legitimate basis for distinguishing between, and placing import restrictions on, dolphin deadly tuna. After considerable political negotiation, Mexico agreed to join the U.S. in a global moratorium on the setting of nets on dolphin and to use the moratorium as a basis for prohibiting imports of dolphin deadly tuna. To date, Mexico and the U.S. have failed to enter into a global moratorium. The failure of such agreement to be effectively implemented serves to underscore the necessity for specific text within the context of the NAFTA package setting forth the right of NAFTA parties to set standards and distinguish between products on the basis of production methods. As part of the NAFTA package, we believe that relevant NAFTA parties should also be required to enter into and enact the global moratorium.

E. STANDARDS

A formal trading relationship between countries with significantly different environmental standards possesses predictable tensions. On the one hand, a country with high standards does not want its environmental quality or economic competitiveness to suffer as a result of weak (or non-existent) standards elsewhere. On the other hand, a country with lower standards does not want its sovereignty infringed upon by other countries. No NAFTA party's environmental, health, or safety standards should be weakened by NAFTA, and the NAFTA package should encourage, rather than inhibit, the ability of any NAFTA party to raise standards. See H.Cong.Res. 246 (Waxman-Gephardt); Trade Act of 1974, as amended, 19 U.S.C. Section 2504. In addition, the protocol must protect the full jurisdictional range of each party's domestic standard setting ability, such as proposals to prevent the export of domestically prohibited or restricted products (e.g., pesticides).

We believe the difficulty in reconciling differences in standards can be resolved in a manner consistent with the fundamental principles of international trade; namely, the test for environmental, conservation, health, and safety standards should be the same as for other NAFTA provisions -- national treatment and nondiscrimination. NAFTA's standards provisions must not provide a mechanism to challenge another country's chosen level of environmental, conservation, health, or safety protection, nor the means chosen to achieve such protection if the means is facially non-discriminatory in intent.

NAFTA's two chapters specifically covering standards, Sanitary and Phytosanitary standards (SPS) and Technical Barriers to Trade (TBT), contain ambiguous and contradictory language, and may be interpreted to encourage harmonization towards generally lower international norms. The current TBT and SPS texts set up numerous committees with broad policy jurisdiction, and establish detailed procedures for "conformity assessment" and other harmonization mechanisms. We believe that standard-setting is a matter for local, state, and national democratic bodies, and should be subject to trade disciplines only when there exists a discriminatory intent. To the extent that such committees and standard-setting procedures will exist in NAFTA, the SPS and TBT texts must be supplemented and clarified to ensure openness, mechanisms for public participation and oversight, and participation of environmental, health, and safety experts.

The protocol must also assure that the role of "science" as a necessary basis for standards-setting is not an absolute prerequisite to the adoption and implementation of standards. Standards based, for instance, on the precautionary principle or on consumer preference must be allowed, so long as their intent is transparent and facially non-discriminatory. Similarly, standards not based on risk assessment, like referendums and "zero-risk" standards, must not be challengeable by NAFTA. The NAFTA package must also make clear the ability of countries to maintain more than one level of acceptable risk. Further, the role of international standard-setting bodies must be only advisory.

In addition, the NAFTA standards sections threaten to expose legitimate environmental, conservation, health, and safety protections to attack as trade barriers on the basis of how a particular level of protection is implemented. The protocol, therefore, must clarify that a non-discriminatory measure will not be held to violate NAFTA because some less NAFTA-inconsistent measure may conceptually exist, a measure has extrajurisdictional implications, or is based on process distinctions.

Finally, the protections afforded by the wide range of standards applicable in the NAFTA parties can only be as strong as the commitment of the NAFTA countries to effectively monitor, inspect, and enforce these standards. For example, with the increased movement of products expected from NAFTA, the U.S. will need to implement new inspection mechanisms to ensure that meat and livestock imported from Mexico and Canada meet all applicable U.S. standards.

F. IMPACT ON STATE AND LOCAL LAWS:

Because states and localities are not parties to NAFTA, they cannot directly defend their standards under Chapter 7 or 9. Although the federal government is allowed to set standards it deems "appropriate," states and localities do not explicitly possess this right, and are thus dependent upon the federal government for defense. Furthermore, NAFTA Article 105 states all parties "shall ensure that all necessary measures are taken that in order to give effect to the provisions of this agreement ... by state and local governments." This situation will have a chilling effect upon progressive sub-federal legislation that often drives effective federal action. Thus, the NAFTA package must provide sub-federal governments standing and a major role in NAFTA disputes. It must also assure the ability of sub-federal governments to establish initiatives that exceed federal and international standards.

G. INVESTMENT:

Although Article 1114 of the existing NAFTA recognizes "that it is inappropriate to encourage investment by relaxing domestic health, safety or environmental measures," it does nothing to actually prevent such an occurrence. No NAFTA country should become a "pollution haven" for unscrupulous investors, American or otherwise. The United States, for example, frequently applies limitations to investment, domestically and abroad, for important political and national security reasons; that definition must now be broadened to include ecological security. The NAFTA package must provide a means, including for instance offsetting tariffs to make "polluters pay," so that environmental, health, and safety costs are fully internalized. Moreover, NAFTA's investment provisions should permit access to dispute settlement as a means of preventing environmentally damaging investment.

H. INTERNATIONAL AGREEMENTS:

At present, only three multilateral environmental agreements are given some _limited_ measure of protection under NAFTA: CITES, the Montreal Protocol, and the Basel Convention. The Bush Administration's defense to this limitation was that only these three agreements possess direct trade implications. Not only is this assertion false, but the logic behind the argument is also needlessly narrow. We strongly believe that all NAFTA parties must possess the ability to _implement_ and _enforce_ any international agreement by imposing trade restrictions, if such restrictions are an effective way to secure complete compliance with the agreement in question. Therefore, we believe all present and future international environmental, health, safety, animal welfare or conservation agreements, to which any NAFTA party is a signatory, should be referenced in the protocol and added to Article 104.

I. ENERGY:

Rules of energy trade among NAFTA parties must respond to the pressing ecological imperative of global warming by assuring the stabilization of greenhouse gas emissions and the reduction of CO2 emissions. For both Canada and the U.S., substantial reductions of the energy intensity of these economies is also required. It is critical that the protocol make these goals explicit. As currently written, Chapter 6 of NAFTA and its precursor in the U.S.-Canadian FTA fundamentally undermine these objectives. Particularly problematic are those provisions of NAFTA that provide for proportional access, as well as the subsidization of oil and gas projects.

Thus, the protocol must secure the right of all NAFTA parties to restrict the export of energy and energy resources to abate global climate change and achieve other environmental objectives. The protocol must also protect least-cost energy programs, like subsidies to encourage conservation and renewables, from trade challenges. In addition, the protocol should include specific provisions to encourage the transfer of appropriate energy efficient technology and to ensure that full environmental impact assessments are undertaken for all major energy projects.

J. AGRICULTURE:

NAFTA, as written, threatens the survival of family farmers who have the most experience and potential to be good stewards of the land. If agricultural production is to be put on a sustainable footing, (e.g. decreased production on marginal land and the use of fewer chemicals), then environmental and social costs must be internalized. This will not happen if family farmers have to compete with cheaper imports produced in less sustainable ways.

NAFTA must preserve the capacity to employ supply management as a policy tool to promote sustainability. This capacity has been seriously undermined by NAFTA's tariffication of quantitative import controls, including Section 22 of the Agricultural Adjustment Act and the Meat Import Act. We therefore propose that the tariffication provision be altered through the supplemental agreement to allow for import controls on supply managed crops and to create the possibility for the future supply management of crops not currently in the program.

K. CONSERVATION ISSUES:

The NAFTA package must not allow or encourage natural resources such as water, forests, and the diversity of species to be unsustainably consumed or harmed. If countries are to develop and implement sustainable natural resource management programs, they must possess unfettered authority to regulate resource extraction. Of critical importance is the power to determine whether, and under what terms, a NAFTA party's resources may be exploited for export markets. Under NAFTA, particularly Articles 309 and 316, the sovereignty of countries to regulate the export of natural resources is severely curtailed. In fact, Article 316 goes much further than GATT by assuring perpetual access to other party's resources, notwithstanding domestic shortages, for as long as those resources last. A particularly serious problem in this regard is the prospect that NAFTA could be used to compel major interbasin transfers of water despite existing water management regimes. The protocol, thus, must explicitly provide that all parties possess unfettered authority to embargo natural resource exports for legitimate conservation ends.

A related problem centers upon the impact of NAFTA's intellectual property framework on efforts to protect the biological diversity of this continent's ecosystems. The protocol should ensure that equal protection be afforded to both the "stewards" or "owners" of biological resources, including indigenous and minority peoples, as well as to patent holders.

To help deal with wildlife habitat conservation in particular, we propose that the Convention on Nature Protection and Wildlife Preservation in the Western Hemisphere be revitalized and specifically linked to NAFTA so that acceding countries to NAFTA make specific accommodations to habitat protection within their borders.

L. GOVERNMENT PROCUREMENT:

The use of preferential purchasing policies is an important tool that has been used by governments at all levels to create markets for, and encourage the development of, green technology and environmentally sound products. Under Chapter 10 of NAFTA, such green procurement initiatives are vulnerable to challenge. For instance, under the CUSFTA, Canadian paper manufacturers have argued they possess a trade claim on the basis of recycled paper content requirements by U.S. governments. Thus, the protocol must assure the rights of governments to implement environmental purchasing policies and practices free from the threat of trade sanctions.

M. THE "NECESSARY" TEST AND OTHER PROBLEMATIC NAFTA LANGUAGE:

Like many other NAFTA provisions, Chapter 21's environmental "exceptions" incorporate GATT terminology and jurisprudence. Unfortunately, recent GATT panel decisions have interpreted the term "necessary to protect human, animal or plant life or health" as requiring "necessary" measures to be "least-GATT" or "least-trade" restrictive. Under this standard, many present federal and state measures could be found to be NAFTA-inconsistent -- from bans on the trade in elephant ivory to state recycling programs. The environmental exceptions in NAFTA, therefore, need to be clarified and strengthened to ensure that the GATT jurisprudence does not affect the interpretation of NAFTA.

Also potentially problematic is NAFTA Article 903, which could be read to incorporate GATT provisions and jurisprudence in a way that diminishes a NAFTA country's ability to protect environmental resources. Furthermore, Annex 2004's allowance to seek dispute settlement if a party feels "any benefit it could reasonably have expected to accrue it ... is being nullified or impaired" invites attack upon U.S. standards. Similarly, the "based on" language of Articles 754, 755, 757, and 905 could needlessly threatens U.S. laws like the Delaney clauses. Here again, a clarifying standard should be adopted in the protocol that protects all U.S. environmental, health, and safety standards, as long as they are not arbitrary, discriminatory, or disguised trade barriers.

N. SUSTAINABLE DEVELOPMENT:

While we laud the goal of "sustainable development" in NAFTA's preamble, we would like to see the goal of sustainable development made binding, and appear in Article 102's Objectives. By truly integrating the concept of sustainability into this protocol, the NAFTA parties will establish an environmental benchmark for hemispheric trade and development.

III. THE NORTH AMERICAN COMMISSION ON THE ENVIRONMENT (NACE):

We support a NACE that will possess investigative, monitoring, and enforcement powers for all present and future parties of NAFTA, as well as serve as a mechanism for meaningful public participation. A strong NACE would not only enable the NAFTA parties to jointly increase the use and implementation of beneficial environmental, health, and safety measures, but also provide an effective mechanism for identifying and addressing degrading activities that create unfair competitive advantages or result in trade distortions. All activities of the NACE described will be public, except where explicitly provided otherwise.

STRUCTURE OF THE NACE:

Following are some practical recommendations regarding the structure and functions of the NACE.

1. NACE Commission:

The Commission should ultimately be responsible for all functions of the NACE. Each NAFTA party should have the right to appoint one NACE Commissioner who, together with the other NACE Commissioners, will possess authority to effectively implement NACE policies and perform NACE functions. We suggest that the operative voting norm for NACE be a majority. The U.S. NACE Commissioner, equipped with a staff, should be selected by the President with Senate confirmation.

2. NACE Secretariat:

A permanent and independent Secretariat should also be created in order to realize NACE's substantial mandate. Thus, we recommend establishing a head of the Secretariat (Secretary General). The Secretary General, with staff, should possess responsibility for implementing the environmental, health and safety provisions of the NAFTA package, though national courts would retain concurrent jurisdiction to enforce standards in their own courts. The Secretariat should also be responsible for submitting an annual public report to the parties on its various duties.

3. Roster of Dispute Panelists:

The Commission should establish a roster of environmental, conservation, health, and safety experts with appropriate trade background for dispute resolution under NACE.

4. NACE Public Advisory Committee:

We suggest a Public Advisory Committee be formed, made up of four representatives from each country and one representative selected by the Secretariat. The four U.S. representatives should be picked by the President, and must include at least two individuals from non-profit environmental, conservation, health, and safety groups.

FUNCTIONS OF THE NACE:

1. Dispute settlement:

An effective NACE must be empowered with the authority to engage in two distinct prongs of dispute resolution:

a. NACE must be able to effectively dismiss complaints that attack laws whose sole purpose is to advance legitimate environmental, health, safety, or conservation laws. The protocol should provide that challenges to laws implicating environmental, health, and safety protections should be referred to the NACE. Where the NACE finds that the sole purpose and effect of a challenged party's measure is to advance a legitimate environmental, health, or safety goal, such a finding shall be referred to the NAFTA dispute process for the dismissal of the complaint. Where the NACE finds that the complained of measure is not in full a legitimate environmental, health, or safety measure, the NAFTA dispute may continue, according the findings of the NACE great deference in making its environmental, health, safety, or conservation determinations on the application of NAFTA's provisions. This process will ensure that legitimate protections are insulated from trade challenges, without compromising the ability of the parties to address NAFTA-inconsistent protectionist trade measures.

b. The NACE dispute settlement procedure should also be the mechanism for NAFTA environmental, health, and safety enforcement. Disputes may be brought by NAFTA parties or the public involving environmental, health, or safety issues before the Commission. The Commission should determine which cases shall be directly referred to a NACE dispute panel. In cases where the Commission declines a matter, the Public Advisory Committee should possess authority to compel the dispute resolution under NACE. The Public Advisory Committee should also possess authority to bring complaints to NACE directly. U.S. implementing legislation must specifically acknowledge the right of U.S. citizens and groups to sue in federal court to invoke trade measures or other appropriate sanctions for violation of U.S. standards. NACE should only enforce a party's own standards.

If a dispute panel verifies a complaint by a party or individual, then that party or individual should be entitled to pursue the "snap-back" tariff provisions of NAFTA's Chapter 8 through the complainant's domestic trade agency. If a dispute panel determines that a party or individual has suffered an environmental, conservation, health, or safety injury as a result of lax enforcement in another country, yet no trade injury exists, then NACE should possess the authority to levy a fine upon the violating entity. Mechanisms should be developed to enable monies collected through the dispute process to be used for environmental compliance.

2. Investigation:

We believe the NACE must possess authority to investigate environmental, conservation, health, and safety matters in all NAFTA countries. The NACE should be able to commence an investigation on its own initiative or at the request of the Public Advisory Committee, the public, or a NAFTA party.

3. Monitoring:

The Secretariat, in cooperation with the NACE Commissioners, should also possess authority to monitor the condition of the NAFTA parties' general environment. Consequently, the Secretariat should possess the authority to obtain information form the NAFTA parties' government and the general public.

4. NAFTA Amendments and Accession:

Because of the significant impacts that either NAFTA amendments or accession would have upon the environment, the NACE Commission should make recommendations to the parties on these matters. Any new party to the NAFTA should be required to accede to the whole NAFTA package and submit a report to the NACE on its environmental, health, and safety protection schemes, as well as the enforcement of those protections. These reports could be revised by all NAFTA parties at regular intervals thereafter.

5. Cooperative efforts:

We further suggest the NACE promote cooperative efforts among NAFTA parties relating to trade and its environment, health, and safety implications for technology transfer, technical assistance, training, and education programs. Several successful cooperative ventures between NAFTA parties have already commenced. The potential in exporting U.S. technological expertise will not only enhance enforcement efforts in other countries, but will also generate a significant number of American jobs.

We appreciate the opportunity to brief you on these matters and look forward to working with you over the coming months and years. We hope that the protocol outlined in this letter is merely the beginning of a larger process to incorporate sound environmental oversight into the NAFTA process. Please do not hesitate to contact us if you have any questions.

On behalf of:

Defenders of Wildlife
Center for International Environmental Law (CIEL)
Friends of the Earth
Sierra Club
Public Citizen
The Humane Society of the United States
Humane Society International
Institute for Agriculture and Trade Policy
Center for Rural Affairs
National Family Farm Coalition
Earth Island Institute
Marine Mammal Fund
Animal Protection Institute
Rainforest Action Network
Whale and Dolphin Conservation Society
Performing Animal Welfare Society (PAWS)
The Fund for Animals
Environmental Investigation Agency
Environmental Solutions International
International Primate Protection League
N.Y. Public Interest Research Group, Inc.
Community Nutrition Institute
National Toxics Campaign Fund
North America Project, World Policy Institute

cc: The Honorable Bruce Babbitt
The Honorable Carol Browner
The Honorable Mike Espy
The Honorable Ron Brown
The Honorable Warren Christopher
The Honorable Tim Wirth
The Honorable George Mitchell
The Honorable Max Baucus
The Honorable Daniel Moynihan
The Honorable John Kerry
The Honorable John Chafee
The Honorable John Danforth
The Honorable Sam Gibbons
The Honorable Gerry Studds
The Honorable Richard Gephardt
The Honorable Dan Rostenkowski
The Honorable Ron Wyden
The Honorable Bill Richardson
The Honorable Henry Waxman
The Honorable Sam Gejdenson
The Honorable Robert Matsui
The Honorable Peter DeFazio
The Honorable Cardiss Collins
The Honorable John LaFalce
The Honorable Laura Tyson
The Honorable Carmen Suro-Bredie
Ms. Kathleen McGinty

May 4, 1993

Ambassador Mickey Kantor
U.S. Trade Representative
600 17th Street, N.W.
Washington, D.C. 20506

Re: NAFTA -- Supplemental Agreements

Dear Ambassador Kantor:

As you are aware, the undersigned environmental groups have each consulted with your office about and made recommendations concerning the North American Free Trade Agreement (NAFTA) supplemental agreements on the environment. In order to clarify the positions that we believe are critical to the supplemental agreement negotiations and to help the President achieve his objectives on NAFTA, we have come together to define those provisions which if included in the supplemental agreements would secure the support of all of our organizations for the NAFTA.

In developing the positions set forth below, we were guided by several key principles: (a) that the supplemental agreements must establish a North American Commission on the Environment (NACE) which is given meaningful responsibility and the resources to undertake its role; (b) that the Signatories must give NACE the power to play an important role in helping ensure that the Signatories enforce their environmental laws; (c) that the NACE have the ability to discuss, evaluate and report on important environmental and conservation issues; (d) that the Signatories agree to a dedicated source of funding for the NACE, border infrastructure and cleanup, and conservation programs; (e) that there be meaningful public participation in the environmental aspects of the NAFTA, including the NACE; and (f) that ambiguities in certain provisions of the NAFTA text, particularly the standards provisions, be clarified.

Based on these principles, we have agreed that the undersigned groups will support the NAFTA if the supplemental agreements include the following provisions:

I. The NACE.

A. Structure. The Signatories would establish a North American Commission on the Environment (NACE) that, in addition to Commissioners, is staffed by a permanent Secretariat headed by a Secretary General who has the independent power to prepare reports and conduct investigations, and which is advised by a Citizens Advisory Board that includes representatives of nongovernmental organizations from each Signatory.

B. Power to Prepare Reports. The NACE would have the responsibility for preparing specific reports set forth in the supplemental agreements. The NACE would also have the power to act as a policy forum to debate and report on environmental and conservation issues.

C. Power to Investigate. The NACE would have the power to conduct investigations on its own initiative or in response to citizen petitions in a manner consistent with priorities set by the supplemental agreements and the Secretary General. It would also prepare reports on the results of such investigations.

D. Contents of Reports and Follow-up. The reports of the NACE would include suggested action plans; the Signatories involved would respond in writing to such action plans; the NACE agreement would require the Secretary General at regular intervals to follow up and report on the status of the implementation of an action plan; and the Secretary General would make all its reports and responses public.

II. Enforcement.

A. Gathering Information. To gather information, the Secretary General would have the power to hold public hearings and request that the relevant Signatory government gather information that the Secretary General finds is necessary. A Signatory responding to a request from the Secretary General for information would seek to obtain such information pursuant to and consistent with the Signatory's laws and regulations. The Secretary General would have the power to request verification of data by visits by its staff to the relevant facilities accompanied by enforcement personnel of the Signatory. The visits would be conducted consistent with the laws and regulations of the Signatory and be of sufficient scope to meet the information objectives of the Secretary General. All denials of requests for information or verification would be made public unless the Signatory certifies that this would interfere with an ongoing civil or criminal investigation.

B. Individual Facilities and Operations. The Secretary General would have the power to gather information about individual facilities and operations, and be able to use such information to evaluate enforcement of law by the Signatories.

C. Sanctions. The Signatories agree that any Signatory who believes that another Signatory has engaged in a pattern of failing to comply with NACE recommendations embodied in an action plan or with requests for information and verification by the Secretary General could initiate a dispute settlement proceeding under Chapter 20 of NAFTA on the basis that such repeated failures nullify and impair the concessions granted in the NAFTA. Article 2019 sanctions would be implemented where a dispute panel finds a pattern of a Signatory failing to comply with NACE recommendations embodied in an action plan and/or a pattern of failing to respond to NACE requests for information and verification.

D. Domestic Law Enforcement. The Signatories would agree to make available to their own citizens under their domestic laws enforcement procedures similar to those in Article 1714 of NAFTA so as to permit effective enforcement of environmental laws.

II. Funding.

A. Funding for NACE and Border Projects. The supplemental agreements would provide for a secure source of funds in an amount sufficient to enable the NACE to undertake each of its responsibilities and functions, as well as for cleanup and infrastructure programs on the U.S/Mexican and U.S./ Canadian borders.

B. Funding for Conservation Programs. The supplemental agreements would provide for a secure source of funds for conservation, biodiversity and ecosystem protection programs.

IV. Standards.

A. Negotiation of Process Standards. The Signatories would agree to enter into negotiations within six months of the implementation of the NAFTA to discuss criteria for setting process standards. In addition, the Signatories would agree to place a moratorium on bringing cases to dispute settlement panels if the law at issue is designed to protect fish, animals or wildlife outside the territorial land of the Signatories until these negotiations develop applicable criteria for process standards. The implementing legislation would include a provision specifying that arbitral panel decisions adverse to a U.S. fish, animal or wildlife law or regulation would not result in the repeal or amendment of any such law or regulation.

B. Chapter 9. The Signatories would clarify that Chapter 9 was intended to allow challenges to an environmental standard-related measure only on the ground that it is discriminatory or was designed as a disguised barrier to trade, not on the ground that it is too strict.

C. Chapter 7. The parties would either agree on language clarifying certain key terms in Chapter 7 that remain ambiguous, including but not limited to the term "necessary," or agree that they will not bring cases under Chapter 20 challenging a sanitary or phytosanitary standard for pesticide residues or contaminants in food under Chapter 7 except on the ground that the standard is discriminatory or was designed as a disguised barrier to trade.

D. Challenges to State Laws. The Administration would agree that it will seek in the U.S. implementing process a provision preventing the preemption of or interference with states' or other subnational entities' laws or policies on the basis of Articles 105 or 902.

V. Dispute Settlement.

A. Dispute Settlement Protocol. The Signatories would enter into a protocol which clarifies the procedures of arbitral panels; which sets forth the deference such panels will give to a Signatory's agency and judicial decisions and a Signatory's laws concerning the setting of standards; which increases the transparency of arbitral panel proceedings by providing, consistent with criteria set in the supplemental agreement, documents to the public and the opportunity for interested persons to file amicus briefs; and which specifies the opportunity for public participation and the use of environmental experts in such proceedings.

B. Input Into U.S. Positions During Dispute Settlement Proceedings. The implementing legislation would provide for public input (and, where appropriate, input from state and local governments) into U.S. government decisions relating to: (i) the defense of cases before arbitral panels challenging environmental laws, and (ii) decisions whether to bring a dispute settlement proceeding alleging that a Signatory has not complied with NACE recommendations or requests.

VI. Public Participation. In addition to the public participation provisions described above, the Signatories would agree to enact "community right-to-know" laws consistent with Principle 10 of the Rio Declaration.

VII. International Environmental Agreements.

The Signatories would add additional environmental and conservation agreements to Annex 104:1 and list automatically on that annex all amendments to the agreements on that annex and in Article 104. Dispute resolution panels would give deference to a Signatory's decision that it has properly interpreted the relationship between the NAFTA and another international environmental agreement. We will provide a list of the Agreements that we believe should be added to Annex 104:1.

VIII. Supplemental Agreements.

The Signatories would agree, consistent with their domestic law, to take actions that give the supplemental agreements on the environment the same status and effect as the NAFTA itself.

The provisions described in this letter are elaborated and amplified in the attached back-up memorandum. Taken together, we believe that they would be either consistent with historical practice in the international area or reflective of the trend towards greater transparency in international deliberations, that they would be consistent with the preamble to NAFTA and the Rio Declaration, that they would not unduly interfere with the sovereignty of the Signatories, that they would not require a rewrite of the NAFTA text, that they would increase protection of the environment throughout North America and that they would lead to significantly better protection of the environment than would result if the NAFTA were defeated.

Please note that neither this letter nor the back-up memorandum addresses a number of important issues that affect the borders of the Signatories, including the relationship between the NAFTA and other border agreements and institutions and the need for establishing national environmental management districts. These issues will be addressed in another letter we are preparing. In addition, we are preparing and will provide a letter analyzing funding options.

We deeply appreciate your careful consideration of the matters set forth in this letter and look forward to meeting with you to discuss them further.

Sincerely,

Roger Schlickeisen
Defenders of Wildlife

Jay D. Hair
Jay D. Hair
National Wildlife Federation

Fred Krupp
Environmental Defense Fund

John Sawhill
Nature Conservancy

Peter A.A. Berle
National Audubon Society

Kathryn Fuller
Kathryn Fuller
World Wildlife Fund

John Adams
John Adams
Natural Resources Defense Council

BACK UP MEMORANDUM

This memorandum sets forth a more detailed description of each of the points referenced in the letter to Ambassador Mickey Kantor dated May 4, 1993. The organizations that signed the letter believe that these points, if achieved, would successfully implement the broader provisions set forth in the letter.

I. The NACE.

A. The Structure of NACE.

1. Organization.

The NACE structure would include: (a) as Commissioners the chief environmental officers of each of the Signatories; (b) a Secretariat headed by a Secretary General with a permanent staff; and (c) a permanent Citizens Advisory Board.

2. The Secretary General.

The supplemental agreement would provide criteria for the choice of the Secretary General, including a requirement that the Secretary General have trade and environmental experience, management experience and sufficient stature. The supplemental agreement would provide term limits for the Secretary General as well as criteria for the removal of the Secretary General, including, but not limited to, a requirement that the Secretary General be subject to removal only for cause.

3. The Citizens Advisory Board

The Citizens Advisory Board would be made up of six representatives from each Signatory and one representative selected by the Secretary General. The six U.S. representatives would be picked by the President and would include at least two representatives from non-profit environmental, conservation, health and safety groups and one representative from a non-profit border group.

4. The Commissioners.

Each Signatory would appoint its senior environmental official as one of the three NACE Commissioners.

5. Role of Commissioners and Secretary General.

The Commissioners would oversee the operation of the NACE by setting policy guidelines for the Secretary General and by reviewing annual work plans prepared by the Secretary General. The Secretary General would have the power to propose the annual work plans, to implement independently the work plans reviewed by the Commissioners, to issue the reports described below, to include in those reports recommendations to the Signatories, and to respond to citizen petitions as described below.

B. The Powers and Responsibilities of the NACE.

1. Initial Reports.

No later than two years after the NAFTA becomes effective, the Secretary General would issue separate reports that evaluate and make recommendations concerning the enforcement of environmental laws by the Signatories; the implementation of NAFTA and the side agreements; the relationship of natural resources, biodiversity, agriculture and energy to trade and sustainable development; the status of environmental protection on the borders of the Signatories; and the status of upward harmonization of the environmental laws of the Signatories. An example of a specific description of what would be included in the initial reports is annexed as Exhibit A.

2. Annual Reports.

After the issuance of these initial reports, the Secretary General would issue an annual report on enforcement of environmental laws by the Signatories, the status of the environment of the Signatories, and the implementation of NAFTA and the supplemental agreements, as well as any other reports consistent with the work plans for the NACE proposed by the Secretary General.

3. Investigations.

The Secretary General would investigate, report on the results of investigations, and make recommendations based on investigations he or she initiates or undertakes in response to public petitions. The Secretary General would grant priority to petitions that allege significant harm to the environment and that relate to transboundary pollution, the global commons and failure to enforce the law against facilities or industries that are involved in the import or export of goods among Signatories. The Secretary General may in his annual work plans set forth additional criteria for setting priorities for conducting investigations and responding to public petitions.

4. Policy Fora.

In addition to preparing reports and conducting investigations, the NACE would act as a policy fora to debate and report on environment and conservation issues. To advise these fora, the Secretary General may form ad hoc groups of policy experts and would consult with the Citizens Advisory Board.

C. Citizen Access.

Any person or organization may petition the Secretary General to undertake investigation of allegations that a Signatory's law is not being enforced, to hold policy fora and to investigate allegations of damage to the environment or biodiversity as a result of trade.

II. Enforcement.

A. Information Gathering.

To gather information necessary to prepare any of the above reports or to evaluate citizen petitions, the NACE would have the power to request that the relevant Signatory government gather information that the Secretary General finds necessary. The Signatories would agree in the supplemental agreements to cooperate fully with these requests and a Signatory responding to a request from the Secretary General for information would seek to obtain such information pursuant to and consistent with the Signatory's laws and regulations. A signatory would notify the Secretary General in writing if the Signatory refuses to or cannot provide the information, with an explanation for its decision.

B. Verification

If the Secretary General finds that the information it receives about an enforcement of law issue is inadequate, the Signatories agree that they would permit the NACE staff to verify the data by visiting, accompanied by enforcement personnel of the Signatory, the relevant facilities, operations or government officials. The visits would be conducted consistent with the laws and regulations of the Signatory and be of sufficient scope to meet the information objectives of the Secretary General. If a Signatory does not permit such verification, it would notify the Secretary General in writing and provide an explanation for its decision.

C. Confidentiality

The Signatories and the Secretary General would provide confidential treatment to business records in accord with the law of the relevant Signatory. All notices required by this section would be made public unless the Signatory certifies that making the notice public would interfere with an ongoing criminal or civil investigation.

D. Public Hearings.

The Secretary General is authorized to hold public hearings in connection with the preparation of reports or the investigation of citizen petitions.

E. Individual Facility Information.

In preparing general reports and in responding to petitions, the NACE would be able to gather information about individual facilities, and be able to use such information to evaluate enforcement of law by the Signatories.

F. Recommendations in Reports and Follow-up.

The recommendations in the reports prepared by the NACE would include an action plan for addressing the issues raised in the report. No later than six months after submitting an action plan to a Signatory (or sooner if so recommended in the action plan) and at regular intervals thereafter until the Secretary General finds that the Signatory has implemented the action plan or a plan that the Secretary General finds would achieve a similar result, the Secretary General would request information on the implementation of the action plan, conduct verification if necessary, and would issue a publicly available report on the status of the implementation of the plan.

G. Response to Reports.

The Signatories would respond in writing to the recommendations and fact findings in each report issued by the NACE, and the Secretary General would make public all reports produced by NACE and all responses from Signatories denying the NACE information or verification requested by the Secretary General.

H. Chapter 20 Proceedings.

The Signatories would agree that any Signatory who believes that another Signatory has engaged in a pattern of failing to comply with NACE recommendations embodied in an action plan or requests for information and verification by the Secretary General could initiate a dispute settlement proceeding under Chapter 20 of the NAFTA on the basis that such repeated failures nullify and impair the concessions granted in the NAFTA. The parties would agree that Article 2004 of NAFTA provides recourse to the dispute settlement process for these proceedings. Article 2019 sanctions would be implemented where a dispute arbitral panel finds a pattern of a Signatory's failing to comply with NACE recommendations embodied in an action plan and/or failing to respond to NACE requests for information or verification. The supplemental agreements would set forth the factors the arbitral panel would consider in determining whether a pattern of noncompliance had occurred, including but not limited to, the frequency of the failures of the Signatory to comply, the severity of the harm to the environment resulting from the failures, and the time period within which the failures occurred.

I. Domestic Law Enforcement.

The Signatories would agree to make available to their own citizens enforcement procedures under their domestic law similar to those in Article 1714 of the NAFTA so as to permit effective enforcement of environmental laws. A sample set of such provisions is annexed as Exhibit B.

III. Funding.

A. Funding for NACE and Border Projects.

The supplemental agreements would provide for a secure source of funds in an amount sufficient to enable the NACE to undertake each of its responsibilities and functions, as well as for infrastructure and cleanup programs on the U.S./Mexican U.S./Canadian borders. In determining border infrastructure and cleanup program needs and priorities, procedures would be established to ensure input from local communities that are affected by the program.

B. Funding for Conservation Programs.

In addition to funding the NACE and border infrastructure and cleanup programs, the supplemental agreements would provide a secure source of funds for conservation, biodiversity and ecosystem protection programs.

IV. Standards.

A. Negotiation of Process Standards.

The Signatories would agree to enter into negotiations within six months of the implementation of the NAFTA to discuss criteria for the use of process standards. In addition, the Signatories agree to place a moratorium on bringing cases to dispute settlement panels if the law at issue is designed to protect fish, animals or wildlife outside the territorial land of the Signatories until these negotiations develop applicable criteria for process standards. The implementing legislation would include a provision specifying that arbitral panel decisions adverse to a U.S. fish, animal or wildlife law or regulation would not result in the repeal or amendment of any such law or regulation.

B. Dolphin Conservation Act.

The U.S. negotiators would formally request the Mexican government to agree to the International Dolphin Conservation Act moratorium on the practice of setting nets on dolphin to harvest tuna.

C. Chapter 9.

The Signatories would clarify that Chapter 9 was intended to allow challenges to an environmental standard-related measure only on the ground that it is discriminatory or was designed as a disguised barrier to trade, not on the ground that it is too strict.

D. Chapter 7.

The parties either would agree on language clarifying certain key terms in Chapter 7 that remain ambiguous, including but not limited to the term "necessary," or would agree that they would not bring cases under Chapter 20 challenging a sanitary or phytosanitary standard for pesticide residues or contaminants in food under Chapter 7 except on the ground that the standard is discriminatory or was designed as a disguised barrier to trade. Sample language clarifying the terms of Chapter 7 is annexed as Exhibit C.

E. Challenges to State Laws.

The Administration agrees that it would seek in the U.S. implementing legislation a provision preventing the preemption or interference with states' or other subnational entities' laws or policies on the basis of Articles 105 or 902.

V. Dispute Settlement.

A. Dispute Settlement Procedure Protocol.

The Signatories would agree to enter into a protocol setting dispute settlement procedure guidelines for arbitral panels, including but not limited to provisions that: (1) ensure that the burden of proof by a preponderance of the evidence is on the challenging party in a dispute over standards and on a Signatory in a case in which the Signatory is defending an allegation that it failed to comply with NACE recommendations or request for information or verification; (2) provide deference to agency and judicial decisions (except to the extent they conflict with NACE recommendations) and to the laws and regulations of the Signatories concerning the setting of standards; (3) provide that at least one environmental expert would sit on arbitral panels when the dispute involves environmental issues and that the expert would be chosen from a panel of such experts established by the NACE; (4) provide access to all briefs filed before arbitral panels in environmentally-related cases with appropriate protection for national secrets and security interests and confidential business information; (5) make arbitral panels decisions available to the public except when the panel finds it is necessary to redact the decision to protect confidential business information or national secrets and security interests; (6) permit interested persons or organizations to petition an arbitral panel for permission to file amicus briefs and set guidelines for the arbitral panel as to when to accept such petitions; and (7) open hearings on environmentally-related cases to the public with appropriate protection for national secrets and security interests and confidential business information.

B. Input Into U.S. Positions During Dispute Settlement Proceedings.

The implementing legislation would provide for public input (and, where appropriate, for input from state and local governments) into decisions relating to: (1) the defense of cases in the dispute settlement process of Chapter 20 of NAFTA challenging environmental laws; and (2) whether to bring dispute settlement proceedings alleging that a Signatory has not complied with NACE action plans or requests.

VI. Public Participation.

In addition to the public participation provisions set forth above, the Signatories would agree to enact "community right-to-know laws" consistent with principle 10 of the Rio Declaration.

VII. Relation to other environmental and Conservation Agreements.

The parties agree pursuant to Article 104:2 to add to Annex 104:1 additional environmental and conservation agreements, and to list automatically on Annex 104.1 all amendments to the environmental and conservation agreements listed in that annex or in Article 104. Dispute resolution panels would give deference to a Signatories' decision that it has properly interpreted the relationship between the NAFTA and another international environmental agreement. A list of the Agreements that we would like to see added will be supplied in the near future.

VIII. Supplemental Agreement.

The Signatories would agree consistent with their domestic law, to take actions that give the supplemental agreements on the environment the same status and effect as the NAFTA itself.

Exhibit A

INITIAL REPORTS

1. Compliance with Law Report - This report will generally analyze enforcement of environmental law within each Signatory. The first report shall for each Signatory: (a) describe the resources available for enforcement of environmental laws; (b) describe the permit programs for discharge of substances into the air and water and the disposal of substances on the land; (c) determine whether enforcement resources are adequate and what steps can be taken to improve enforcement; (d) determine, after review of a sample of facilities, whether and how the permit program is being implemented and suggest measures to improve implementation; and (e) reach preliminary conclusions as to whether and how well environmental laws are being enforced and recommend steps that can be taken to improve enforcement.

2. Crossborder Report - The crossborder report shall analyze generally the status of crossborder pollution, environmental compliance by *maquiladora* facilities, the need for additional waste water treatment facilities, and the adequacy of existing agreements relating to crossborder pollution among the Signatory nations. The report shall make recommendations with respect to each of these matters.

3. The Transborder Investment Report - This report shall include (a) a review of compliance with environmental law by firms that are partially or fully-owned by persons (including ultimate parent corporations, partnerships and individual investors) from another Signatory [alternatively, another "nation"] and have industrial, agricultural, mining or natural resource operations or facilities in the territory of a Signatory (except for operations by *maquiladora* facilities which will be covered by the crossborder report) and (b) an analysis of whether any additional steps need to be taken to ensure that foreign-owned facilities come into compliance with or stay in compliance with the environmental laws of the Signatory.

4. Natural Resources, Biodiversity Energy and Agriculture Report - This report shall analyze the effect of increased trade and development on natural resources, energy and agriculture and species diversity beginning with a general analysis of the status of natural resource protection and the threats to biodiversity as of the date of the first report. It shall consider the effect of NAFTA on natural resources and species and make recommendations to alleviate any significant adverse effects it finds.

5. The Side-Agreement Report - This report will monitor compliance with side agreements, including any agreements requiring that the legal systems of the Signatories give citizens effective rights to enforce environmental laws.

6. The Harmonization of Standards Report - This report would analyze whether the Signatories are making progress in achieving upward harmonization of their standards.

EXHIBIT B

Environmental Enforcement

(Prepared by Justin Ward, Natural Resources Defense Council)

DRAFT 4/7/93

PREAMBLE

The Governments of Canada, the United Mexican States and the United States of America (the Parties),

Reaffirming Principle 10 of the Rio Declaration on Environment and Development as agreed to by the Parties, and that it is the right of every citizen to take part in decisions that will affect their personal health and welfare;

Convinced that citizen participation is essential to development and enforcement of environmental laws is essential to sound environmental policy making; and

Deciding to provide for an effective and enduring mechanism that will permanently ensure the rights of citizens to participate in environmental decisions and enforcement of environmental laws;

Have agreed as follows:

Article I: Enforcement of Environmental Laws and Regulations: General Provisions

1. Each Party shall ensure that enforcement procedures, as specified in this Article and Articles II through IV, are available under its domestic law so as to permit effective action to be taken against any act that violates national environmental laws and regulations, including expeditious remedies to prevent imminent environmental degradation and remedies to deter further infringements. Such enforcement procedures shall be applied so as to avoid the creation of barriers to legitimate trade and to provide for safeguards against abuse of the procedures.

2. Each Party shall ensure that its procedures for the enforcement of environmental laws and regulations are fair and equitable, are not unnecessarily complicated or costly, and do not entail unreasonable time-limits or unwarranted delays.

3. Each Party shall provide that decisions on the merits of a case in judicial or administrative enforcement proceedings shall:

(a) preferably be in writing and preferably state the reasons on which the decisions are based;

(b) be made available at least to the parties in a proceeding without undue delay; and

(c) be based only on evidence in respect of which such parties were offered the opportunity to be heard.

4. Each Party shall ensure that parties in a proceeding have an opportunity to have final administrative decisions reviewed by a judicial authority of that Party and, subject to jurisdictional provisions in its domestic laws concerning the importance of a case, to have reviewed at least the legal aspects of initial judicial decisions on the merits of a case. Notwithstanding the above, no Party shall be required to provide for judicial review of acquittals in criminal cases.

5. Nothing in this Article or Articles II through IV shall be construed to require a Party to establish a judicial system for the enforcement of environmental laws and regulations distinct from that Party's system for the enforcement of laws in general.

6. For the purposes of Articles II through IV, the term "right holder" includes but is not limited to individuals, federations, associations, and non-governmental organizations that are deemed to have legal standing to assert a right of action to enforce environmental laws and regulations in a representative capacity or on their own behalf.

Article II: Specific Procedural and Remedial Aspects of Civil and Administrative Procedures

1. Each Party shall make available to right holders civil judicial procedures for the enforcement of any national environmental law or regulation. Each Party shall provide that:

   (a) defendants have the right to written notice that is timely and contains sufficient detail, including the basis of the claims;

   (b) parties in a proceeding are allowed to be represented by independent legal counsel;

   (c) the procedures do not include imposition of overly burdensome requirements concerning mandatory personal appearances;

   (d) all parties in a proceeding are duly entitled to substantiate their claims and to present relevant evidence; and

   (e) the procedures include a means to identify and protect confidential information.

2. Each Party shall provide that its judicial authorities shall have the authority:

   (a) where a party in a proceeding has presented reasonably available evidence sufficient to support its claims and has specified evidence relevant to the substantiation of its claims that is within the control of the opposing party, to order the opposing party to produce such evidence, subject in appropriate cases to conditions that ensure the protection of confidential information;

   (b) where a party in a proceeding voluntarily and without good reason refuses access to, or otherwise does not provide relevant evidence under that party's control within a reasonable period, or significantly impedes a proceeding relating to an enforcement action, to make preliminary and final determinations, affirmative or negative, on the basis of the evidence presented, including the complaint or the allegation presented by the party adversely affected by the denial of access to evidence, subject to providing the parties an opportunity to be heard on the allegations or evidence;

   (c) to order a party in a proceeding to desist from a violation of environmental laws and regulations;

   (d) to order the violator of national environmental laws and regulations to pay the right holder damages adequate to compensate for the injury the right holder or community at-large has suffered because of the violation where the violator knew or had reasonable grounds to know that is was engaged in a violative activity;

   (e) to order a violator of national environmental laws and regulations to pay the right holder's expenses, which may include appropriate attorney's fees; and

   (f) to order a party in a proceeding at whose request measures were taken and who has abused enforcement procedures to provide adequate compensation to any party wrongfully enjoined or restrained in the proceeding for the injury suffered because of such abuse and to pay that party's expenses, which may include appropriate attorney's fees.

3. With respect to the authority referred to in subparagraph 2(c), no Party shall be obliged to provide such authority in respect of subject matter that is acquired by a person before that person knew or had reasonable grounds to know that the production of subject matter would entail the violation of environmental laws and regulations.

4. With respect to the authority referred to in subparagraph 2(d), a Party may, at least with respect to pollution clean-up, authorize the judicial authorities to order recovery of profits or payment of pre-established damages, or both, even where the violator did not know or had no reasonable grounds to know that it was engaged in a violative activity.

5. In respect of the administration of any law or regulation pertaining to environmental protection or enforcement, each Party shall only exempt both public authorities and officials from liability for appropriate remedial measures where actions are taken or intended in good faith in the course of the administration of such laws.

6. Each Party shall provide that, where a civil remedy can be ordered as a result of administrative procedures on the merits of a case, such procedures shall conform to principles equivalent in substance to those set out in this Article.

Article III: Provisional Measures

1. Each Party shall provide that its judicial authorities shall have the authority to order prompt and effective provisional measures:

   (a) to prevent environmental degradation due to the alleged violation of a national environmental law or regulation; and

   (b) to preserve relevant evidence in regard to the alleged infringement.

2. Each Party shall provide that its judicial authorities shall have the authority to require any applicant for provisional measures to provide to the judicial authorities any evidence reasonably available to that applicant that the judicial authorities consider necessary to enable them to determine with a sufficient degree of certainty whether:

   (a) the applicant is the right holder;

   (b) a national environmental law or regulation is being violated or such violation is imminent; and

   (c) any delay in the issuance of such measures is likely to cause irreparable harm to the right holder (or the community at-large), or there is a demonstrable risk of evidence being destroyed.

Each Party shall provide that its judicial authorities shall have the authority to require the applicant to provide a security or equivalent assurance sufficient to protect the interests of the defendant and to prevent abuse.

3. Each Party shall provide that its judicial authorities shall have the authority to order provisional measures on an ex parte basis, in particular where any delay is likely to cause irreparable harm to the right holder (or the community at-large), or where there is a demonstrable risk of evidence being destroyed.

4. Each Party shall provide that where provisional measures are adopted by that Party's judicial authorities on an ex parte basis:

   (a) a person affected shall be given notice of those measures without delay but in any event no later than immediately after the execution of the measures;

   (b) a defendant shall, on request, have those measures reviewed by that Party's judicial authorities for the purpose of deciding, within a reasonable period after notice of those measures is given, whether the measures shall be modified, revoked or confirmed, and shall be given an opportunity to be heard in the review proceedings.

6. Without prejudice to paragraph 4, each Party shall provide that, on the request of the defendant, the Party's judicial authorities shall revoke or otherwise cease to apply the provisional measures taken on the basis of paragraphs 1 and 3 if proceedings leading to a decision on the merits are not initiated:

(a) without a reasonable period as determined by the judicial authority ordering the measures where the Party's domestic law so permits; or

(b) in the absence of such a determination, within a period of no more than 20 working days or 31 calendar days, whichever is longer.

7. Each Party shall provide that, where the provisional measures are revoked or where they lapse due to any act or omission by the applicant, or where the judicial authorities subsequently find that there has been no violation or threat of a violation of an environmental law or regulation, the judicial authorities shall have the authority to order the applicant, on request of the defendant, to provide the defendant appropriate compensation for any injury caused by these measures.

8. Each Party shall provide that, where a provisional measure can be ordered as a result of administrative procedures, such procedures shall conform to principles equivalent in substance to those set out in this Article.

Article IV: Criminal Procedures and Penalties

1. Each Party shall provide criminal procedures and penalties to be applied at least in cases of willful violation of an environmental law or regulation for a commercial purpose. Each Party shall provide that penalties available include imprisonment or monetary fines, or both, sufficient to provide a deterrent,

Exhibit C

(Prepared by Justin Ward, Natural Resources Defense Council)

III. CLARIFICATION OF NAFTA PROVISIONS AFFECTING HEALTH AND ENVIRONMENTAL STANDARDS

Throughout the NAFTA process, we have repeatedly expressed concern that the trade agreement not become a vehicle for undercutting the ability of our society to protect public health and the environment. We accept the concept in NAFTA that environmental and health standards should neither unjustifiably discriminate against imported goods nor create disguised trade restrictions. We also recognize that it may be very difficult to document and prove intent on the part of a country to misuse health and environmental standards to restrict trade.

Chapter 7 of NAFTA attempts to address this problem by establishing a more objective test of the validity of "sanitary and phytosanitary" (S & P) measures, including standards to protect human health from pesticides and other food contaminants. Unfortunately, the current NAFTA text, although improved over earlier versions and proposed GATT language, still goes too far. It would allow NAFTA dispute panels to second guess the democratic decisions made at the federal, state, or local levels in our country as to 1) the existence and acceptability of environmental and health risks, and 2) the choice of appropriate protective measures. Administrative agencies most often make such "risk assessments," but legislatures, courts and the electorate have both legal rights and important roles to play in making these choices.

Language in the NAFTA side agreements should make it clear that health and environmental decisions are not subject to full reconsideration under NAFTA, but can only be challenged as lacking a rational basis or as "arbitrary or capricious" resulting from an unfair or unreasonable decisionmaking process. U.S. standards adopted in conformity with the Administrative Procedure Act or similar laws would be free from such scrutiny. We also must recognize the inevitable uncertainty associated with health and environmental risks, and nonetheless act to prevent injury to health and the environment -- the so-called "precautionary principle."

As currently drafted, NAFTA fails to recognize fully that food safety standards involve judgments about both technical evidence and social policy. Instead, NAFTA treats them as solely within the province of "science," a term that is not defined in the text, and the result of administrative "risk assessment," a term that is defined in detail (Articles 715, 724). Our concern is that NAFTA might be interpreted by dispute panels as requiring that health and environmental measures rest upon the kind of certainty generally associated in many people's minds with scientific experiments or as requiring the support of all or most scientific opinion.

In a side agreement, the NAFTA Parties should explicitly recognize the entire range of governmental institutions at the national and subnational levels that may be involved in the adoption and application of health and environmental measures and in carrying out "risk assessments." These include administrative agencies, legislatures, the courts, and electoral referenda. The side agreement should also adopt a "dictionary" definition of "science" such as the "systematic pursuit of knowledge through observation and experimentation." These definitions would permit challenges to measures only in those cases where there is simply no supporting analyses, where supporting analyses can be shown to have no factual basis or to be fundamentally flawed, or where the decision-making process is totally unfair. The clarifications we are proposing would be consistent with the way NAFTA's intent has been interpreted by trade and environmental officials in each country.

We are well aware and indeed share some of the concerns regarding the closed nature of the dispute settlement procedures under NAFTA. We should first recognize that these panels are not like federal courts. They do not now have the power to overturn or preempt domestic standards. Instead the panels are mechanisms for trying to resolve diplomatic disputes when negotiations fail. Nonetheless, a finding that a health or environmental measure is an unfair trade barrier could have significant legal and political impacts in national fora.

We do not favor turning the NAFTA panels into trinational courts.[1] Instead, we should sharply limit the scope of their review with respect to health and environmental standards. As suggested above, the panels should consider only whether the decision-making process and basis underlying a contested measure were rational with some factual basis and not arbitrary and capricious, and, of course, whether the measure discriminates unjustifiably against international trade.

The Parties should also adopt provisions to assure the opportunity for meaningful participation in trade disputes by concerned citizens, non-governmental organizations, and state and local government bodies. This would include public access to submissions, decisions, and proceedings of panels, and rights to make written and oral submissions to dispute panels.

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[1] As discussed above in our recommendations on the NACE, we support moving toward new disciplines that would treat unmitigated environmental enforcement lapses as actionable trade violations. Such violations could be addressed within the NAFTA dispute regime with environmental expertise furnished by NACE.

We have proposed to USTR the following specific clarifications to the NAFTA disciplines governing S & P measures:

Clarifications of Article 712

The Parties recognize that the adoption, maintenance, and application of sanitary and phytosanitary measures may involve actions by regulatory agencies, legislatures, courts, electoral referenda, and private standard-setting bodies at both the national and subnational levels. The Parties further recognize that these actions may take place in circumstances where risk assessments, as required in Article 712.3 (c) and prescribed in Article 715, may not be appropriate or feasible.

Additional language for Article 712.3

(d) is not arbitrary or capricious, but based upon a fair and open process in which there is consideration of scientific evidence and opinion, and policy options and preferences.

This subsection would be added to an Article establishing the conditions under which a Party may adopt, maintain, or apply S & P standards. This language much more accurately reflects the reality of S & P standards decision-making than the current formulation in NAFTA. It would insulate from NAFTA challenge U.S. measures, which by law must be established and carried out with due process. At the same time, this formulation would protect the interests of American exporters against "midnight" or "off-the-wall" regulations. Where there are significant procedural failures or lapses, Parties would be able to question the validity of resulting standards.

Additions to Article 724 Definitions

"necessary" means reasonably required

Articles 712.1 and 712.5 use the term "necessary" in regard to S & P measures, which Parties are free to adopt and apply. There is concern based upon earlier GATT practice that the term "necessary" might be construed to mean "least trade restrictive."[2] (To the negotiators' credit, Chapter 9 of NAFTA governing "Technical Barriers to Trade" omits the troubling "necessary/least trade restrictive" test.) NAFTA trade panels should not be empowered to second guess the judgment made by domestic authorities as to the best means to protect life and health. With the proposed clarification, a Party challenging such a measure under NAFTA would have to prove that there was no reasonable nexus between the measure and the accomplishment of its specific objective to protect life and health. A measure could not be viewed in violation of NAFTA just because there was theoretically an equally effective, but less trade restrictive, alternative.

"Scientific" refers to the systematic pursuit of acquiring knowledge through study or practice

"Basis" refers to any factual support, theory or opinion that is neither irrational nor arbitrary or capricious.

Article 712.3(a) states that Parties must establish S & P measures based upon "scientific principles." Article 712.3(b) obligates the Parties not to maintain S & P measures where there is no longer a "scientific basis," defined in Article 724 as "a reason based on data or information derived using scientific methods." However, the term "scientific" or "science" is never defined.

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[2] Testimony of David A. Wirth, Assistant Professor of Law, Washington and Lee University, before the House Committee on Science, Space and Technology, September 30, 1992; S. Charnovitz, "NAFTA: An Analysis of its Environmental Provisions," 23 Environmental Law Reporter, p. 10068 (February 1993).

Our proposal is to adopt the "dictionary" definition for the term, which refers to the reasoned process by which knowledge is gained through observation or experimentation. Under this definition, NAFTA panels would not be able to substitute their own judgment for those of national authorities as to whether the "science" underlying the measure were "good" or "adequate." Instead, such measures could be successfully challenged only if it could be shown that there were no supporting analyses.

Addition to Article 105

The Parties agree that measures taken to secure observance by state, provincial and local governments of provisions of this Agreement shall not diminish nor impair the constitutional and legal rights of state, provincial and local governments to adopt, maintain, or apply measures to protect public health and the environment.

This language would recognize the rights of states (granted in the U.S. Constitution and by federal statute) to adopt more exacting health and environmental standards than those of the federal government. It is critical that the NAFTA side agreements and implementing legislation make clear that the U.S. Federal Government will not be required or expected to preempt state or local requirements in any manner that is inconsistent with existing law.

Clarification of Article 2012

The Parties agree in advance that in any dispute involving environmental or health issues, the rules of procedure must require the prior publication of written submissions to the panel, permit sub-federal governmental bodies and nongovernmental organizations to present written and oral submissions to the panel, and assure public access to panel proceedings and initial and final panel reports.

It is critical that the public have an opportunity to participate meaningfully in disputes that go beyond purely commercial matters to raise health and environmental concerns. Our proposed language would not upset the general assumption that dispute panel deliberations would be confidential. Instead, the Parties would agree, as permitted by Article 2012.2, to treat health and environmental disputes more openly.

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

AUG -9 1993

OFFICE OF
AIR AND RADIATION

The Honorable Cardiss Collins
Chairwoman, Subcommittee on Commerce,
 Consumer Protection, and Competitiveness
Committee on Energy and Commerce
Washington, D.C. 20515-6120

Dear Ms. Chairwoman:

I am responding to your letter to Administrator Browner of June 25, 1993, regarding environmental issues surrounding the construction of four coal-fired electricity generating units at a site near Piedras Negras, Mexico (Carbon II). These units are being built near an existing, coal-fired power plant (Carbon I) and are located approximately 20 miles south of Eagle Pass, Texas and 140 miles southeast of Big Bend National Park. Neither Carbon I nor Carbon II have add-on controls for sulfur dioxide (SO2) emissions.

Like you, EPA is very concerned that the plant could have a significant impact on U.S. air quality in adjacent border areas. The EPA's focus to date has been on gathering technical information regarding the source's operating parameters and emissions and, using standard modeling techniques and other tools, assessing the impact of the SO2 emissions on Big Bend National Park and other portions of the United States. In this effort, EPA has worked cooperatively with the National Park Service and other federal agencies. The EPA has also had the cooperation of Mission Energy Corporation, the U.S. investor in Carbon II. The answers below are based on the information EPA has gathered as well as the modeling conducted to date by EPA and the Park Service. However, because of the early stage of EPA's investigation, the following answers must be considered preliminary.

Once EPA's evaluation is complete, EPA will be in a position to seek a resolution of the issues surrounding the project. The EPA is committed to seeking a solution that eliminates any significant impairment of visibility at Big Bend National Park and addresses any other significant transborder impacts from the project. We remain optimistic that a satisfactory solution can be achieved and we will continue, with the assistance of the National Park Service, the State Department and other federal agencies, to pursue the issue aggressively until that solution is identified and implemented.

Question 1: If the Carbon I and Carbon II facilities were located immediately across the U.S.-Mexico border in Texas, what federal and state environmental laws would apply to their operation?

Response to Question 1

Based on the information EPA has in its possession, EPA has not assessed, and cannot assess, the full range of federal, state and local environmental laws that would apply if this project had been constructed in the United States. As discussed, our focus has been on the air emissions from this coal-fired facility. In this regard, the limits on a new coal-fired power plant locating on the U.S. side of the border would include a requirement that the source comply with the new source performance standard (NSPS) applicable to power plants (Clean Air Act § 111 and 40 CFR 60.40a et seq.) and the requirement that the source undergo New Source Review (NSR) pursuant to the Prevention of Significant Deterioration (PSD) program (Clean Air Act §§ 160 et seq.), assuming that the plant is locating in a border area in attainment with the National Ambient Quality Standards (NAAQS).

The NSPS would require a power plant of the Carbon II design to comply with the more stringent of the following limits for emissions of SO2, particulate matter (PM) and nitrogen oxide (NOx):

SO2	An emissions rate of 1.2 lbs. of SO2 per million British Thermal Units (Btu) or a 90% overall reduction in the unit's emissions rate; or a 70% overall reduction in the unit's SO2 emissions rate so long as the resulting emissions rate is less than .60 lbs. per million Btu.
PM	An emissions rate of .03 lbs. of PM per million Btu or a 99% overall reduction in the unit's PM emissions rate.
NOx	An emissions rate of .50 lbs. of NOx per million Btu or a 65% overall reduction in the unit's NOx emissions rate.

(See 40 CFR 60.40a et seq.)

To secure a New Source Review permit, the applicant would need to install best available control technology (BACT) to the project. CAA § 165(a)(4). BACT is based on a case-by-case evaluation of the appropriate technology considering the individual characteristics of the project, although the level of controls cannot be less stringent than the relevant NSPS. CAA § 169(3). The initial survey of available control technology is the responsibility of the applicant subject to the approval (after notice and comment by the public) of the permitting authority.

In addition to agreeing to install the best available control technology, the applicant would also have to demonstrate through air quality modeling that the new source would not violate a NAAQS or PSD "increment" or significantly contribute to such a violation. CAA § 165(a)(3). PSD increments are prescribed levels of degradation of air quality that will be allowed in an area. The PSD increments for Big Bend National Park and other "Class I" areas are very small and allow little additional degradation of air quality from baseline levels. If modeling indicated that the project (even with BACT) would violate a NAAQS or the increments, additional reductions or other measures would be required before the applicant could construct the facility.

The PSD evaluation would also include an analysis of whether the project would result in adverse impacts on visibility or other air quality related values on nearby national parks and other Class I areas. CAA § 165(a)(5), (d). Class I areas are designated by section 162(a) of the Act. If a project is found to result in an adverse impact, it could not be built unless these impacts are mitigated or a waiver (available under limited conditions) is granted. These ambient impact requirements for new or modified sources are specified in 40 CFR 52.21(p). Even if treated as an existing -- rather than a new -- source, a plant like Carbon II could be subject to the visibility protection provisions of Clean Air Act section 169A, which requires installation of the best available retrofit technology at existing sources that may impair visibility in Class I areas. It is worth noting in this regard that in order to address visibility problems in the Grand Canyon area, EPA recently required a large, coal-fired power plant to reduce its SO2 emissions by 90 percent in order to achieve an SO2 emissions rate of .10 lbs per million Btu. See 56 Fed. Reg. 50,172 (Oct. 3, 1991).

Question 2: What are the equivalent Mexican standards for the U.S. federal and state laws identified in question 1? Please identify, in particular, where there is no equivalent Mexican standard or where the Mexican standard provides less environmental protection than the applicable U.S. federal or state standard.

Response to Question 2

Mexico's environmental standards for air pollution contain both ambient standards and source-specific emissions limitations. For SO2, the Mexican ambient air quality standard is .13 ppm (340 ug/m3), averaged over a 24-hour period. This is slightly stricter than the U.S. 24-hour NAAQS which is set at .14 ppm (365 ug/m3). For nitrogen dioxide (NO2), the Mexican standard is 395 ug/m3, averaged over a one-hour period. The U.S. NO2 NAAQS is 100 ug/m3, averaged annually. (The U.S. has no short-term NO2 standard.) For particulate matter, Mexico's ambient standard is 275 ug/m3 for a 24-hour average (measured as total suspended particulates). The comparable U.S. NAAQS is 150 ug/m3 for a 24-hour average (measured as particulates with diameters equal to or less than 10 microns). For carbon monoxide, Mexico's ambient standard is 14,950 ug/m3 (8-hour average), while the United States NAAQS is 10,000 ug/m3 (8-hour average).

EPA's preliminary research indicates that a Mexican "technical norm" (NTE-CCAT-006/88) provides the key emissions standards applicable to coal-fired, electricity-generating stations. Pursuant to that norm, a plant's SO2 emissions are limited to 51.3 kilograms of sulfur per cubic meter of dry coal burned. Because the Mexican emission standard for SO2 is tied to coal density and heat (Btu) value of the coal to be burned, conversion to comparable U.S. units is necessary. Based upon the coal's heat value specified by Mission Energy, EPA staff estimate the applicable Mexican SO2 emissions standard at Carbon II to be approximately 4.4 lbs. per million Btu. In comparison, as discussed above, EPA's NSPS would require a new source to install controls that achieve at least a 70 percent reduction and also achieve an emissions rate of .60 lbs per million Btu, even if the cleanest of coals were used (0.2 to 0.4 percent sulfur). Coal-fired generating units subject to BACT in the last few years have typically been required to achieve reductions of 90 percent or more.

The same technical norm also provides limits for particulates (3.6 Kg/m3), NO2 (10 Kg/m3) and CO (.270 Kg/m3). As with SO2, the Mexican emissions standards for particulates, NO2, and CO are written somewhat differently than U.S. standards, being based upon kilograms of pollutant emitted per cubic meter of coal burned. The stringency of this type of standard is, therefore, heavily dependent on coal density and heat (Btu) value of the coal to be input into the power station. In contrast, the U.S. standard directly links pollution emissions (in pounds) to the heat input of the coal to the power station (in Btu's).

At this time, EPA's best estimates for the Mexican standards for particulate matter emissions and nitrogen oxides emissions for coal-fired power plants (for the heat value and estimated coal density of the coal specified by Mission Energy) are approximately the following:

PM	.31 lbs. per million Btu.
NOx	.86 lbs. per million Btu.

The comparable U.S. PM emission standard is .03 lbs. per million Btu. This standard is approximately 10 times as stringent as the Mexican standard. The U.S. NOx emission standard (.5 lbs. per million Btu) is approximately 70% more stringent than the Mexican standard. There is no specific U.S. CO emissions standard for coal-fired power plants, as the SO2, PM, and NOx standards are sufficient to indirectly limit CO emissions so as to prevent ambient CO problems.

Question 3: Does federal law require that a power generating facility located outside the United States meet the requirements of the Clean Air Act in order to transmit power into the U.S. power grid?

Response to Question 3

At this time, EPA is unaware of any evidence indicating that the power generated at Carbon I or Carbon II will in fact be sold to U.S. utilities for use in the U.S. It appears instead that the power from Carbon II, like that from Carbon I, will be used to meet power needs solely within Mexico. If EPA learns that power from the plants is to be imported into the U.S., EPA will at that time consider what, if any, environmental restrictions the Clean Air Act or other U.S. environmental statutes may impose on these sources. In addition, an environmental assessment consistent with NEPA may be required under such circumstances for any new connecting transmissions lines involving construction in the United States. This assessment should include an examination of the environmental impact of the sources supplying the power to be transmitted over the new lines.

Question 4: What effect do the air emissions from the Carbon I plant have on the compliance or noncompliance status of states of the United States, or geographic sub-areas of such states, under the Clean Air Act Amendments?

Response to Question 4

The EPA has undertaken preliminary air quality modeling to assess the impact on the PSD increments of the SO2 emissions from the Carbon I and Carbon II plants. This modeling appears to indicate that the Carbon I and Carbon II plants result in ambient impacts at Big Bend National Park in excess of the 3-hour and 24-hour Class I increments for SO2. The EPA is in the process of subjecting these results to internal review. While this air quality modeling followed all EPA guidelines, it was based upon a model known as ISCST2, which can produce somewhat conservative (i.e., somewhat overestimated) results when extended beyond 100 kilometers. Mission Energy has attempted to run a more refined model and has agreed to share these results with EPA when they are completed.

Although EPA has not independently verified the analysis, the National Park Service has reported that its screening modeling indicates that emissions from the plant will degrade visibility significantly at Big Bend National Park and may adversely impact visibility at other southwestern parks.

Question 5: What effect do these air emissions have on the State Implementation Plans of states of the United States?

Response to Question 5

In general, if EPA determines that a PSD increment has been violated, it must call for a revision of the relevant state implementation plan (SIP) (40 CFR § 51.166(a)(3)) and, in the meantime, bar any major construction or modification project that would cause or contribute to the violation.. See Clean Air Act §§ 113(a)(5), 165(a)(3)(A), and 167. However, a state may exclude emissions from foreign sources in calculating increment consumption. CAA § 163(c)(1)(D). Since Texas' PSD provisions do not contain this exclusion, the emissions from Carbon I and II would count in all increment consumption calculations until such time as Texas adopted and submitted, and EPA approved, a SIP revision adding the foreign emissions exclusion. CAA § 163(c)(3). Even with that exclusion, EPA may still be required to call for a revision of the PSD portion of Texas' SIP if the Administrator determined that revisions were necessary to prevent significant deterioration of air quality. See 40 CFR 51.166(a)(3).

Question 6: What effect will the expected emissions from both the Carbon I and Carbon II, when taken together, have on the Clean Air Act compliance status of states of geographic sub-areas in the United States?

Response to Question 6

EPA has not attempted to assess the impacts that the Carbon I and Carbon II emissions might have on non-attainment airsheds in Texas and elsewhere.

Question 7: What is the average cost of compliance under the Clean Air Act for industrial firms and comparable power plants located in noncompliance areas in the United States?

Response to Question 7

Compliance costs at power plants vary widely depending upon whether retrofit controls are necessary, the operating parameters and output capacity of the units, and the profile of the coal to be burned. In addition, the nature and severity of the nonattainment problem for the area can also have a dramatic impact on the level of emissions reductions necessary for any particular source. For this reason, it is difficult to provide meaningful average cost numbers. Still, there is no doubt that the cost of installing a scrubber on an existing power plant the size of Carbon I or Carbon II -- whether in the United States. or Mexico -- is substantial. EPA would expect a scrubber project at a plant of this size to cost in excess of $300 million. This does not include the cost of NOx or other pollutant controls that may also be required depending on the air quality status of the area in which the plant is locating.

Question 8: Was an Environmental Impact Statement, or similar environmental review, prepared before the operation of Carbon I and Carbon II? Did any such statement or review meet the requirements of the National Environmental Policy Act (NEPA), including the requirements of public transparency and participation?

Response to Question 8

EPA understands from Mission Energy, the United States investor in Carbon II, that an environmental assessment complying with Mexican laws was prepared by CFE, the state-run utility authority that built Carbon I and is currently constructing Carbon II. EPA formally requested a copy of this analysis in an April 21, 1993 letter to SEDESOL. However, to this date, EPA has not received a copy of this document and cannot comment on whether it would be comparable to an environmental impact assessment prepared in accordance with the requirements of NEPA. In addition, Mission has furnished a "draft" environmental assessment which it is in the process of revising. Because it has not been finalized, EPA has not assessed whether the Mission analysis meets NEPA standards.

Question 9: If the U.S. proposal for the creation of a North American Commission on the Environment were fully implemented today, what authority would that Commission have to require Carbon I and II to generate power in a manner that meets the requirements of the U.S. Clean Air Act?

Response to Question 9

Although the United States objectives in negotiating the environmental side agreement to the NAFTA may be discussed in general terms, it is impossible to predict at this time what the provisions of the final side agreement will contain and what impact it may have on the situation posed by the Carbon I and II facilities.

One objective of the negotiations of the environmental side agreement to NAFTA has been to develop a forum for the discussion of environmental issues of concern to the NAFTA parties that will serve as a mechanism for avoiding environmental disputes before they arise or for conciliation of such disputes before they become acute. In addition to dispute avoidance and resolution measures, it may also be possible that the Commission could be used as a forum to work toward the development of increasingly compatible environmental standards among the three NAFTA parties. This would be useful when particular problems are due mainly to significant differences in environmental standards between or among NAFTA countries.

Other Materials Requested:

1. A copy of the memorandum identified is enclosed.

2. EPA does not have sufficient data to map the overall impacts from Carbon I and II. If and when this information becomes available, EPA will provide it to the Subcommittee.

3. As discussed in the response to Question 3, EPA has not identified what United States environmental standards, if any, apply to importation of power generated in Mexico. Since EPA is unaware of any evidence indicating that the power generated at Carbon II will be imported, EPA does not intend to pursue the question of extraterritorial application of the Clean Air Act further at this time.

I hope the information contained in this letter is helpful. If you have any questions regarding any of the information presented, please have your staff contact either Bill Tyndall at EPA Headquarters (260-6499) or Jim Yarbrough (214) 655-7232 at Region VI in Dallas.

Sincerely yours,

by John Beale

for Michael H. Shapiro
Acting Assistant Administrator
for Air and Radiation

Enclosure

CSM
9/8/93

Federal Agencies Feel Heat From Their 'Green' Workers

Employees serve as in-house environmental watchdogs

By Brad Knickerbocker
Staff writer of The Christian Science Monitor

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A SMALL but growing army of "green" whistle-blowers is putting pressure on government natural-resource and environment agencies.

Federal employees – sometimes openly, sometimes anonymously – are exposing what they say is the official coverup of timber theft on national forests, speaking out against the suppression of scientific data in national parks, and criticizing policies and favoritism shown to Western ranchers and miners operating on federal land.

They also are organizing support and lobbying groups, such as the Association of Forest Service Employees for Environmental Ethics and the Reclamation Employee Organization for Ethics and Integrity. Several months ago, an umbrella group called Public Employees for Environmental Responsibility (PEER) opened offices in Washington, D.C.

In general, the Clinton administration has welcomed such activity even though not all its policies have met with environmental whistle-blowers' approval.

"Their participation is a good thing," says Interior Secretary Bruce Babbitt. "I think it's positive."

Agriculture Secretary Mike Espy, who oversees the Forest Service, quietly met with a group of environmental whistle-

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blowers shortly after his Senate confirmation earlier this year. Last week Mr. Espy promised to investigate charges of environmental violations in the Tongass National Forest in Alaska brought by a Forest Service timber planner there.

Jim Baca, head of the Bureau of Land Management, has interceded on behalf of a BLM hydrologist critical of development pressures on water resources. After investigating the situation personally, Mr. Baca reversed the man's forced transfer.

Assistant Agriculture Secretary Jim Lyons, in charge of federal timber policy, has agreed to meet with 30 special agents of the Forest Service who charge that agency managers have been covering up the theft of timber by private companies.

"Certainly we have a lot more access now," says Jeff DeBonis, executive director of PEER. Mr. DeBonis was a timber planner with the Forest Service for 12 years before quitting in frustration at what he saw as overcutting. In 1989, he founded the Forest Service employees group, which now numbers 11,000.

Government whistle-blowing gained prominence in the 1980s, mainly with reports of military cost overruns. Employees wanting to report fraud and abuse in their departments gained some measure of safety with passage of the "Whistle Blower Protection Act" four years ago.

But this kind of internal dissent in natural resource and environmental agencies is a relatively new thing. There are two reasons for this, says Louis Clark, executive director of the Government Accountability Project (GAP), a public-interest law firm that defends whistle-blowers and also helps them leak information to the press and to members of Congress.

First, employees feel freer to do so after 12 years of Republican administrations in which politically powerful business interests strongly influenced policy – and, in the case of political appointees, made that policy. Also, the younger generation of agency professionals is more likely to align itself with the cause of environmentalism.

"A lot of people who work in environmental and natural-resource agencies are environmentalists – really committed people," Mr. Clark says. "Unlike the Pentagon or the post office, these agencies are brimming with potential whistle-blowers."

In the 1980s federal workers uncovered abuses by defense contractors. New whistle-blowers focus on the environment.

Recently, a group of BLM district managers, fisheries and wildlife biologists, and range conservationists anonymously produced a report highly critical of their agency's policies and practices regarding cattle-grazing on federal land.

"There are a few examples of good land management in the BLM, but when taken in the overall context of the total amount of public land being managed [272 million acres], they are insignificant," the report states. "BLM resource specialists and managers routinely make decisions for the benefit of individuals in the livestock industry and to the detriment of both overall ecosystem health and future generations of Americans."

Later this month, a group of National Park Service scientists under the auspices of PEER will report on what they allege is the suppression of scientific information that calls into question certain Park Service practices. Also later in September, six of the 30 special law enforcement agents in the Forest Service will testify before a congressional committee about timber thefts.

While more government employees are willing to speak out these days, DeBonis says, "a lot of these employees are still very fearful about going public." The report on BLM grazing practices, for example, could not carry its authors' names because "we didn't feel the administration could protect these folks," he adds.

Environmentalists and their allies within government agencies were delighted when President Clinton filled a number of senior administration slots with appointees from environmental organizations like the Wilderness Society and the League of Conservation Voters. But they remain concerned that the thousands of career managers spread throughout these agencies will remain resistant to change. For example, PEER described Secretary Babbitt's recently announced changes regarding grazing on public lands (including a doubling of fees charged to ranchers) as "a step in the right direction."

"But the overall problem of the agency catering to special interests is not addressed," DeBonis says. "The same old people will be administering the new policies, unless the fundamental culture of BLM is changed. That could be the graveyard of these reforms, no matter how well-intentioned they might be."

ENVIRONMENT

Power Plants In Mexico Cast Pall Over Nafta

By ANDY PASZTOR
Staff Reporter of THE WALL STREET JOURNAL

Mexico's drive to build a series of pollution-prone power plants has U.S. environmental officials fuming, and threatens to erode congressional support for the North American Free Trade Agreement.

The lightning rod for the dispute is the $1.1 billion, coal-fired generating plant called Carbon II, under construction 20 miles south of the Texas border town of Eagle Pass, which is little more than an hour's drive from San Antonio.

The facility, which will use a low-grade, high-ash coal from an adjacent Mexican strip mine, lacks the state-of-the-art pollution control equipment required in this country. And U.S. officials project the 1,400-megawatt plant's emissions, when combined with pollutants from a sister facility already operating nearby, will significantly degrade air quality in parts of the Southwest.

Angered by Mexico's decision to stick with 1950s-era control technology to hold down costs, Environmental Protection Agency and Interior Department officials have issued a litany of warnings about the impact north of the border. Unless expensive "scrubbers" are installed to remove sulfur, according to the latest U.S. Park Service estimate, the plumes from Carbon II could reduce visibility by 30% or more at Big Bend National Park about 150 miles to the northwest. U.S. regulators say that the roughly 250,000 tons of sulfur dioxide the plants together are expected to spew out each year would make them the 10th-largest source of sulfur dioxide pollution on the continent. Interior officials say that will contribute to acid rain and exacerbate formation of haze in pristine areas, probably drifting all the way to Arizona's Grand Canyon.

The plan has U.S. environmental watchdogs seeing red. "This is a very big deal, and it's definitely coming to a head," says one high-ranking Washington environmental official. The first of Carbon II's four units is to begin commercial operation this month.

Mexico, for its part, maintains that "standards for judging visibility are subjective" and "it is premature to say that

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Mexican Power Plants Casting Pall Over Talks on Trade Accord

Continued From Page B1

any particular system or device" would help alleviate potential problems. The plant "meets or exceeds all applicable national and international" pollution standards, according to the Mexican Embassy in Washington, which also notes that Carbon II will release proportionally less pollution than many older U.S. facilities.

The increasingly acrimonious debate cuts to the heart of administration assertions that Mexican environmental standards generally are comparable to those in this country. And questions about Mexico's environmental commitment are heating up just as congressional opposition to the trade pact is building.

Carbon II "is a perfect example of how we could make Nafta work, or how it could actually end up making things worse in the environmental arena," says Scott Royder, a Sierra Club official in Texas. "We face a real turning point."

SCEcorp., the big Rosemead, Calif., utility that markets itself as among the nation's most environmentally sensitive, is also seeing its "green" image smudged by its association with Carbon II. SCE hopes to own 49% of the plant and run it through its Mission Energy unit, as part of a new international market it wants to develop. But after investing more than $200 million there, frustrated SCE executives find themselves not only embarrassed at home, but caught in a diplomatic tug-of-war that they fear could prompt the Mexican government to retain ownership of the disputed plant.

To help enhance its credibility, SCE recently hired Paul Volcker, the former head of the Federal Reserve Board, as a consultant on the project.

Beyond SCE's quandary, the debate has broad implications for U.S.-Mexican relations. Mexico's ambitious long-term industrial development blueprint, which envisions several similar plants that would use Mexican oil supplies or burn the dirty, high-sulfur U.S. coal that's being squeezed out of the domestic market, worries some high-level EPA officials.

More than $1.1 billion in privately funded generating stations are in the works throughout Mexico, and at least two more large, coal-burning power plants along the border are being considered.

Mary Kelly, of the Texas Center for Policy Studies, an Austin-based think tank that has attempted to assess Carbon II's regional impact, emphasizes the "serious weakness of existing binational agreements" to crack down on pollution. Squabbles over the plant "illustrate the inadequate nature of the enforcement tools we will have," even if the trade accord goes into effect, she argues.

U.S. lawmakers consider Carbon II a test case of how the two countries will hammer out cross-border pollution problems under a largely voluntary Nafta side agreement that pledges cooperation on pollution controls. Rep. Henry Waxman, a California Democrat influential on environmental matters, says the plant "points out a fundamental flaw in the way we have viewed U.S.-Mexican relations." The side agreement appears too weak to prevent Mexico from "luring away industries from the U.S. with lax controls," Rep. Waxman argues. "The questions about the environment have disturbed me enough that I don't think I can vote for it."

And Rep. Cardiss Collins (D., Ill.) says the plant highlights low Mexican environmental standards. The EPA's analysis, she says, confirms "that the Mexican standard for particulate emissions from power plants is 10 times weaker than the U.S. standard," and the sulfur-dioxide limit eight times weaker.

Since SCE's Mission Energy unit hasn't proposed to sell any of the electricity to U.S. customers, U.S. regulators have no binding enforcement authority over Carbon II's operation. Still, the World Bank has pulled out of the project because of environmental concerns. Three House subcommittees are delving into the matter. And just last month, the State Department quietly adopted a harder line, acknowledging the seriousness of the environmental concerns and initiating formal government-to-government discussions.

Efforts so far have been purposely low-key, and Mexican officials in the past few days have sounded somewhat more conciliatory.

But Mexican officials have told SCE that they have more pressing pollution-abatement spending priorities in smog-choked Mexico City than at the Carbon II plant, which hasn't been labeled a direct health hazard and where scrubbers would cost $300 million or more to install.

The stakes are high enough, however, for all sides to seek a face-saving compromise. Despite concerns by some subordinates, EPA Administrator Carol Browner strongly supports the trade pact.

Mexican leaders, by the same token, want to avoid hasty action that could scare off overseas investors or sidetrack the industrial growth that the electrification drive is to spearhead. And thousands of mining jobs depend on Carbon II.

The position of SCE Chairman John E. Bryson is that emissions from Carbon II, which he calls "a modern, relatively clean" facility by world standards, won't violate U.S. visibility standards. SCE can't afford to pay for installing scrubbers, Mr. Bryson maintains, and, anyway, he argues it's the place of the Mexican government to decide if additional controls are necessary and then pass the cost on to Mexican ratepayers. Still, Mr. Bryson suggests hopefully that "it's not impossible that there are things that can be done at reasonable cost" to reduce emissions.

Under Mr. Bryson, himself a prominent figure in environmental affairs, SCE's Southern California Edison unit has focused on voluntarily reducing emissions in California. It has 144 separate environmental or conservation programs in place, including a center to help businesses meet clean-air goals.

Carl Pope, Sierra Club executive director, credits SCE with "doing a very good job operating within the very constrained regulatory environment" in Southern California. "But it's a different story," he says, "when the controls are lifted."

STATEMENT OF THE FLORIDA TOMATO EXCHANGE

The Florida Tomato Exchange is opposed to the North American Free Trade Agreement as presently written, and we strongly urge this Committee to oppose this Agreement as not being in the best interests of Florida agriculture, of U.S. agriculture, of U.S. labor, or the environment of U.S. citizens.

The Florida Tomato Exchange is a non-profit agricultural cooperative association, whose members sell more than 50% of the U.S. grown tomatoes for fresh market in the U.S. each year. In 1992/93, Florida shipped more than 70 million 25 lb. cartons of tomatoes with a farm value of more than $570 million. Tomatoes are the largest vegetable crop produced in the State and vegetables from Florida rank No. 2 in the U.S. at a total farmgate value in excess of $1.6 billion annually.

The impact on Florida's tomato growers will be great. The impact on the workers will be great; and, the impact on the rural communities in which our growers farm and live will also be great. Florida's Commissioner of Agriculture estimates that 50,000 plus jobs in agriculture in Florida will be lost as a result of the NAFTA. The U.S. International Trade Commission estimates that the impact on winter fruits and vegetables which compete directly in the U.S. marketplace with Mexican imports will be great. More specifically, another government report estimates that if the NAFTA were to be fully implemented, the first year Florida would lose 8,700 jobs in the tomato industry alone. This was published in *The Potential Effects of Labor-Intensive Agriculture in Mexico on United States-Mexico Migration,* Commission for the Study of International Migration and Cooperative Economic Development, Gary D. Thompson and Philip L. Martin, December 1991, p. 11. They also estimated tomato production would decrease by 20% or roughly $125 million the first year. The personal toll across this industry will be greater than that experienced during Hurricane Andrew.

In response to the plight of Florida's growers as a result of this Agreement, trade negotiators provided for a special phase-out period for the tariff that has been in place and unchanged for approximately fifty years. Despite the fact that the U.S. Trade Representative's Office specifically on a number of occasions in the past has found that tomatoes are extremely import sensitive, tomatoes did not receive the longest phase-out period. Instead, tomatoes were given a ten-year phase-in period and a special safeguard provision to address surges of imported tomatoes from Mexico. This was done on the last days of negotiation. The U.S. negotiators never ever told us what we were traded for.

The safeguard provision in the Agreement is a quantity based snap-back provision designed to "kick-in" when quantities entering the U.S. exceed the quota permitted. The tomato growers did not propose this safeguard provision. The tomato growers do not want this provision, called a Tariff Rate Quota (TRQ), which clearly is antithetical to any notions of free trade. More importantly, the tomato growers believe this provision may well exacerbate the import surge problem because it creates a very real advantage to those growers in Mexico who market in the early part of each quota window. If this happens, tomato prices at the beginning of each window period will likely drop significantly and depress the market for the remainder of the period.

The tomato growers, along with other vegetable and citrus growers in Florida, proposed a price-based safeguard mechanism, which was not adopted. No explanation was given as to why this couldn't have been done—the fact is a price-based mechanism can easily be done and, most importantly, it would provide some real protection against import surges.

The tomato growers realize they are in the line of fire because they compete so directly with Mexico in such a competitively sensitive commodity. They are used to adversity and they are used to competition with Mexico. Our growers do not receive subsidies from the government; they do not receive support prices when the prices they receive are below their costs of production; they do not receive export credits or other government help to export their product; in fact, they are as close to free traders as you will find in agriculture or anywhere else. The forces in the marketplace generally dictate the prices received, who survives and who doesn't. However, even Adam Smith acknowledged that there are certain exceptions to the principles of free trade and one is where the government imposes internal taxes which make a domestic industry less competitive vis-a-vis imports from another country. And, that certainly is the case here. NAFTA clearly favors Mexican producers.

Our growers must pay the costs of complying with a myriad of local, state, and federal regulations. Estimates range up to 30% of all costs are incurred to meet these worthy societal goals. The problem in this case is that our competitors for our own market do not have to pay such comparable costs; nor do they have to comply with comparable standards. This reality is glossed over by proponents of the Agreement but it is real, it is substantial, and it is unfair. It amounts to a direct subsidy for the tomato growers in Mexico for which there is nothing in the NAFTA or in any of the side agreements which would eliminate or even lessen the unfairness.

The side agreements supposedly were to be an attempt to deal with significant issues of disparity between Mexico and the United States. Canada is not mentioned here because for agriculture only Mexico and the United States have negotiated an agreement. Canada opted out. [Canada and many agriculture groups in the northern tier states want to renegotiate the Canadian-U.S. Trade Agreement (CUSTA) because of the problems encountered in implementing and enforcing that agreement.] The side agreements, in our opinion, provide the worst situation possible; they promise great cooperation and support for the environment and labor and on import surges, but, in reality and upon a careful reading of the agreements, there are no economic incentives for Mexico to improve its enforcement in any of these areas. In fact, these agreements lock in Mexico's existing lower standards and levels of compliance and, therefore, create a real disincentive for Mexican producers to take the costly and burdensome steps necessary to improve in the environmental, labor and other areas. The import surge agreement is not substantive and does not respond to the issues of those commodities threatened by import surges.

Promises of cooperation and good will can not overcome the economic realities described previously. Waiting for the economic situation to improve in Mexico so that there will be more money to improve the working conditions or the environment in Mexico again is based on a promise or hope that things will improve. Assuming all the promises will happen, which is extremely unlikely because of the economic disincentives previously mentioned, improvements in these areas will not happen in the short term, not in the mid-term, and doubtedly in the long term. What happens in the meantime? In the meantime, tomato growers, their families, their workers, their communities, and those whose livelihoods depend on them will be seriously harmed. So also will other perishable agricultural industries similarly situated be harmed.

A careful reading of the side agreements reveals that it will be extremely unlikely to actually bring and successfully conclude an action through either the environmental or labor side agreements. The standards are undefined or too vague; the obligations and duties too remote; and the penalties are not likely ever to be imposed. In fact, the side agreements do not address any actions prior to the time the Agreement goes into effect, thereby locking in past abuses and locking in the existing situation of substantial and widespread non-compliance with existing laws and regulations. We believe it will be most difficult to determine what "a consistent pattern of non-enforcement that is not justified" by a party to the agreements means, especially when a party can make a case that it simply does not have the money to better enforce the agreements. Again, the reality is that the economic incentives (or lack of real economic disincentives) will compel non-compliance by those companies operating in Mexico. Thus, these agreements with all their great sounding words will likely have no real impact in improving the labor and environment in the two countries.

Relatedly, the side agreements on the environment and labor establish large bureaucracies, which are supposed to be in place on January 1, 1994. No explanation as to how this is going to happen or, more importantly for your Committee, how these commissions will be paid. We think it is fair for the Finance Committee to determine the costs of these particular commissions established in the side agreements and fix where the money is coming from to pay for them.

Mr. Chairman, not only are there substantial costs associated with the commissions established in the side agreements but also there are substantial costs established in and associated with the NAFTA itself. Tariff eliminations alone are estimated to cost the Treasury $600 million a year, and costs of implementing the Agreement will be substantial, including costs of increased inspections, costs of cleaning up the environment, costs for infrastructure, etc. We have raised the issue of retraining for our workers many times over the last several years; however, we have not received a good answer as to how our particular workers in Florida will be helped or how much it will cost. We think that is a fair question which should also be answered before the Agreement is approved, not after. The Congressional Budget Office estimates the costs to implement NAFTA be roughly $40 billion, if it is approved. Where is this money coming from? Shouldn't this be determined ahead of time? How about letting those companies who benefit from the NAFTA pick up the tab for implementing it. It is truly a case of adding insult to injury to require those who will be harmed by the Agreement to pay for its implementation as well. Given the costs connected with implementing this Agreement and the necessity to raise taxes (or take money from somewhere else) to pay for it, we strongly urge your Committee to find the funding sources for this before you consider passing on the merits of this Agreement. Mr. Chairman, all official estimates by the government indicate that the Florida tomato growers will be harmed by this Agreement and that the harm will be great. The side agreements do not help; they may even hurt us. Given this situation, the Florida Tomato Exchange, on behalf of the tomato growers in Florida must oppose this Agreement. We are for free trade, if it is also fair trade. This is not a fair trade agreement; it will hurt us, it will hurt Florida agriculture and we not see how the Agreement can be fixed to help us. We have worked with the prior Administration and the present Administration address our concerns and we will go anywhere and meet with anyone to help our growers, but to date we have not been offered such an opportunity. It is our conclusion that the NAFTA is a bad trade agreement. It should be killed. Go back to the table to write a free trade agreement that is also a fair trade agreement.

Thank you for considering our position on the NAFTA.

STATEMENT OF FUNDESA

The Committee to promote Foreing Trade. COSOSCO, operating under the umbrella of Guatemalan Development Foundation, FUNDESA. is pleased to be able to present its statement, pursuant to the chairman's request of September 9th of 1993 for private sector comments on North American Free Trade Agreement, NAFTA, and in particular in implementing legislation for the Trade Agreement.

The creation of NAFTA will undoubtedly damage some export markets which Guatemala and other Caribbean Basin Initiative (CBI) countries have developed in the United States and Mexico. Nevertheless, we strongly favor the creation of NAFTA as a vital first step towards the development of a hemisphere-wide free trade area. We believe strongly that development of this hemispheric market will be of great benefit to both the United States and the less developed countries of the area. To ensure that Guatemala and other Caribbean countries do not lose growth to Mexico once NAFTA is in place however, we support the adoption of NAFTA parity legislation for CBI countries, in line with Senator Gram's Bill (S.B. 1155), for inclusion in the NAFTA implementing legislation. Without such parity legislation, Guatemala and other Caribbean countries will be disadvantaged in the U.S. market vis a vis Mexico for certain sensitive items not granted preferential access under the CBI legislation.

In the past the Guatemalan Government followed inward-looking economic policies which produced only very limited improvements in the lives of millions of our very poor citizens. In recent years Guatemala, and many other hemisphere countries, have taken meaningful steps to participate more fully in the world economy. Our tariffs and other trade barriers have been reduced by much more than half, and our import and export regulation procedures have been streamlined.

As a result of these market access measures many more Guatemalans have become involved in exporting and importing. It is important that this trend continues to grow.

Because of the Guatemalan Government's liberalization measures Guatemala's imports from the US. tripled in six years, growing from $ 400 million in 1986 to $ 1,200 million in 1992.

The US trade balance with Mexico improved form a $ 5,000 million deficit in 1986 to a $ 7,000 million surplus in 1992. The US balance with Guatemala during this same period improved from a $ 200 million deficit to a nearly $ 200 million surplus There were similar improvements in US trade balances with other liberalizing CBI countries.

Clearly, the changes in the economic policies of Mexico. Guatemala and other CBI countries, which brought them more actively into the world economy, have been very beneficial to the US trade balance. Moreover, the sharply increased US exports to these countries were generally of higher-tech and higher wage products, while the increased US imports from Mexico and Guatemala were almost entirely of low-technology and low-wage products. The rapid development of export markets for US high tech products in nearby countries such as Mexico and Guatemala not only creates more of the very desirable high-wage jobs in your country, but should be of great assistance to the US industry in becoming more competitive in the more distant markets of Europe and Asia.

Because the US market is so large and relatively prosperous, many US firms concentrate solely on domestic market and neglect the much more complicated export markets. Since Mexican and CBI markets are so close and easy to serve, better access will mean more US manufacturers will become engaged in exporting to our country. Much of Guatemala's imports come not from specialized US export firms but from wholesalers in Miami and elsewhere who supply US department stores and super markets as well as those in Guatemala. This supply system has become so efficient that the duty-free diplomatic import commissary at the US Embassy in Guatemala has difficulty competing with the prices for US consumer items in the Guatemalan super markets, with their large-volume-buying discounts.

Some US opponents of NAFTA argue that because the US market is so much larger than that of Mexico (not to mention those of the CBI countries), a free trade arrangement between the United States and Mexico, or between CBI countries, would greatly favor the countries with the smaller markets since they would get access to a much larger US market. What these critics overlook is that the US market is much less protected that those of Mexico and the CBI countries, despite the recent-year liberalizing activities of those countries.

The average tariff in Mexico and the CBI countries remain at about 15% , while the average US tariff is about 5% .

NAFTA, therefore, will give Mexico, and any other area countries that join later, only a 5% tariff advantage over our mainly Asian Competitors for the US market, while US firms will have a 15% tariff advantage over their European and Asian competitors for our markets. With that advantage, US firms should come to dominate the import markets in our countries. For example, in Guatemala US auto imports dominated our market until the 1960's and 70's when the Japanese and Europeans caused the US "Big Three" to close their showrooms in Guatemala. With their recently-acquired greater competitiveness, and the 15% tariff advantage, US autos once again should dominate our car market.

Other NAFTA opponents, who focus on the threat to US workers from the low wage rates of Mexico, overlook the fact that the CBI countries (many with wage rates less than half those of Mexico) have enjoyed duty-free access to the US market for almost 10 years under CBI legislation. Despite these years of duty-free access, the CBI countries have been able to make only very minor dents in the Asian dominance of low-wage imports into the US. It is very likely that the only "huge sucking sound" that NAFTA will cause will be that caused by the departure of Asian and European imports for Mexican and CBI markets.

In conclusion, we support the Senate's approval of the NAFTA agreement and encourage the adoption as part of the agreement's implementation legislation of Senator Graham's proposal to have NAFTA benefits extended to the CBI countries simultaneously with the approval of the three-party agreement. The Graham proposal calls for the NAFTA benefits to be extended to the CBI countries for three years during which those countries would have to negotiate full participation in NAFTA or lose these benefits. We believe that Senator Graham's proposal is an even better deal for the US than is NAFTA alone.

Under existing CBI legislation the US already has granted duty-free access to its market for all but five products from CBI countries. The Graham Bill would get eventual duty-free access for all US products to the CBI markets in exchange for giving duty-free access in the US for those five CBI products not granted preferential access under the current CBI legislation. It is difficult to think of a more favorable arrangement for the US.

Although the US clearly should reap greater benefits from NAFTA, and any CBI extension, than they do, Mexico and Guatemala, we support NAFTA because it is the only route available for our country to modernize and become an effective part of the world market. We see such participation, as demonstrated by the "Asian Tigers" as the most effective way to bring improved living standards to our countries.

We thus urge your Committee to approve the NAFTA accordingly and include as part of the NAFTA implementary legislation parity language for Caribbean Basin cour n line with the Graham Bill.

Sincerely,

Willi Kaltschmitt
President COSOSCO

c.c. File
Reading
Correlative

yo Construyo mi futuro

MINISTERIO DE ECONOMIA
8a. AVENIDA 10-43, ZONA 1
GUATEMALA, C. A.

NUM.____________________

REF.____________________

AL CONTESTAR SIRVASE MENCIONAR EL NUMERO Y REFERENCIA DE ESTA NOTA.

GUATEMALAN GOVERNMENT VIEW ON NAFTA PARITY

I. COMPARATIVE MARKET ACCESS/IMPACT:

The enactment of the Caribbean Basin Economic Recovery Act (CBI), stimulated the local investment in Guatemala helping our country increase its exports of the non traditional products. The new business opportunities that the CBI brought were so successful that they convinced Guatemalan businessmen of the importance of Non-Traditional Exports.

The CBI started a new way of living for hundreds of thousands of people. Before the CBI, job opportunities were limited and most women were employed as domestic workers. The 807 program opened new jobs in the industrial sector increasing the income and improving the lifestyle of the people. The most amazing fact is that when the draw back industry began in Guatemala it was expected that wages earned by women would complement the family income. Now with the competition between factories seeking good workers many wives are earning more money than their husbands.

The major disadvantage to Guatemalan exports from NAFTA would result from its removal of tariffs and Quotas on imports of Mexican Textiles and Apparel to the United States. According to the US Department of Commerce, in 1992, Guatemala shipped US$ 457 million of apparel and about US$ 20 million of textiles to the United States. Moreover, our exports of these products have been increasing very rapidly in recent years, from 1986 to 1990 its average growth was of 95%. If Mexico no longer had to pay the relatively high textile and apparel tariffs (17-23%) and was not constrained by quotas, we anticipate that, as a minimun, the growth of Guatemalan exports of these products would come to an end. More likely, the Mexican price and access advantages would begin to cut our exports.

NAFTA will not obligate the companies to cut the fabric under Guarantee Access Level -GAL- in the United States and it could be cut in Mexico, so it will affect Guatemalan exports under GAL since many American factories that work GAL would prefer the advantages that NAFTA gives Mexico. This will affect hundreds of Guatemalan factories that depend on GAL to continue growing in categories constrained by quotas.

NAFTA favors Mexico's vertical integration in apparel, helping Mexican factories acquire higher economies of scale and reducing their production costs. This situation compensates any cost advantages that Guatemalan factories could have over

Mexicans. Guatemalan factories are prepared to compete in equal circumstances since they have developed the technical skills and a large number of support industries. The Apparel exports account for 2% of the Gross Domestic Product of Guatemala.

The Guatemalan apparel and textile export industries currently employ about 80,000 workers. They have been the major source of job creation in the Guatemalan economy in the past seven years, since these industries have improved the technical skills and productivity of their workers and the quality of their products, the negative impact on our growth and export possibilities from a reduction in their growth could be severe. The apparel industry in Guatemala have permitted the incorporation of thousands of new entrepreneurs to the industrial activity spreading it inside the country benefting hundreds of small family shops. A fall off in employment in the country´s major job-creating sector could cause serious repercutions in Guatemala´s never-too-secure political situation. Guatemala´s population is growing at an annual rate of 3% and its actual unemployment rate is about 40%.

In the Footwear Sector, much has been done to support the development of the factories. The personnel have been trained and the factories have received technical assistance to improve their designs, their technology, they have also invested large quantities of money in machinery Etc. in order to be more competitive in the global market. This industry imports around 30% of its raw materials from the United States.

If NAFTA parity is not given to CBI countries, thousands of small producers in Guatemala who work in their own houses will be affected and all the efforts that this industry has done to develop their exports and compete in the market will be frustrated.

II. INVESTMENT IMPACT:

The advantages of the CBI have helped our country to attract local investment. While there has not been too much direct foreign investment in terms of capital flows, the foreign companies have trained and given technical assistance to Guatemalan entrepreneurs to develop suppliers in Guatemala. We are working hard to attract foreign investment and whatever success we might have had in the future would be severely undercut by the existance of NAFTA. In recent years we have taken a number of steps to make our country more attractive to foreign investors. We have taken and are taking measures to make it easier for foreigners to set up businesses here and for foreign technicians and managers to reside in our country. Our laws already give equal treatment to local and foreign investments. Despite our best efforts, however, the existance of NAFTA will make investing in Mexico much more attractive than investing in Guatemala, especially when the greater ease of transportation to and from Mexico is considered.As trade prospects and advantages in the Caribbean diminish, investors will begin to redirect their funds to Mexico.

Existing productive enterprises, which had originally located in the Caribbean to take advantage of the access to the U.S. market, could transfer or close operations in preference for Mexican locations, which have the advantage of better access to the U.S. market. (An apparel plant of about 500 machines can be moved in a very short time).

The loss of trade and investment opportunities would precipitate a decline in business confidence and economic activity, undermining development prospects throughout the Caribbean. Caribbean governments would inevitably find it more difficult to sustain their own economic reform and structural adjustment programs, becoming more reliant upon bilateral aid programs.

On the other hand, for instance, the US Commerce Department estimates that each $ 1 billion of US exports creates some 20,000 jobs in this country. Thus, the $ 11.4 billion in exports from the US to the CBI region during 1992, has surely contributed to create 230,000 american jobs. In Central America and in the Caribbean for each US$ 1.00 that we export, we import from the United States US$ 0.60, in comparison with Asia where they spend only US$ 0.10 in American products and services. Furthermore, the Caribbean industries depend on American raw material and services.

III. POLITICAL IMPACT OF NAFTA PARITY IN CBI BENEFICIARY:

We in Latin America support NAFTA as a matter of general policy. But NAFTA is only one of the Free Trade Agreements that must be negotiated by the US and its Western Hemisphere neighbors. NAFTA is definitely important for Mexico now, and for Latin America in the longer term. It is the gateway for the Free Trade Agreements we should have in the whole Western Hemisphere. But it should not be an instrument that descriminates against the small and economically weak nations of the Caribbean. We do not want to risk seeing potential foreign investment, and even those investors already present in the region, migrate from the CBI nations in search of better conditions in other friendly countries of the same neighborhood, that is why it is very important to obtain the NAFTA´s parity at the same time it takes effect for Mexico.

If NAFTA parity legislation were passed by the US Congress and Guatemala had three years to decide whether it wanted to join NAFTA or lose the parity benefits, we are confident that the Guatemalan Government, with the support of our private sector, would move very quickly to become part of NAFTA. Our Government and our private sector are convinced that the best chance for Guatemala to have a more prosperous future lies in increasing our involvement in the world economy.

As the hemisphere country just south of Mexico, many of our poorer citizens continue to join their Mexican neighbors in moving North to what they see as "the land of opportunity". Participation in NAFTA should help slow this flow of our more enterprising citizens. Almost all the roughly one million Guatemalans now living in the U.S. would prefer to live in their own country, if they could find adequate economic opportunities. We hope that participation in NAFTA will permit our country to experience the kind of economic growth which would help attract vastly increased imports from the Unites States an attract back many of our U.S. based citizens with the English language and work experiences they have acquired.

STATEMENT OF THE HENRY GEORGE FOUNDATION OF AMERICA

The NAFTA Agreement should be implemented, for the following reasons:

(1) American consumers will pay lower prices if imports from Mexico are tariff-free.
(2) NAFTA will create jobs in export-to-Mexico companies. We shouldn't hurt our Mexican customers. "In recent years, nearly 50% of U.S. economic growth has resulted from increases in America's exports" (Karen House, "Wall Street Journal," 9/14/93, p. A18).
(3) NAFTA will help Mexico move toward democracy and capitalism.
(4) If NAFTA isn't passed, Mexico can be expected to retaliate with higher tariffs against U.S. manufacturers, and anti-American sentiment will (justifiably) grow in that country.
(5) Illegal immigration will lessen with NAFTA.

When wealthy European nations brought two new relatively poor nations (Spain and Portugal) into the free-trade European Economic Community in 1986, everybody benefited, including the wealthy nations ("U.S. News & World Report," 9/13/93, p. 65. Mexican wages are 1/7th of American wages, but American productivity is six times higher, and labor costs account for only 10%–20% of production costs in most manufacturing today ("Ibid.," p. 64).

NAFTA opponents lack patriotism because they want Americans to do back-breaking jobs and because they think the American worker is inferior to Mexican labor.

I recently had occasion to go into another state (Virginia) and was so happy I didn't need a passport and didn't need to pass a customs barrier.

STATEMENT OF THE INTERNATIONAL TRADE COUNCIL

Mr. Chairman and Members of the Committee. We thank you for this opportunity to appear and present testimony before the Committee on Finance.

We wish to address the issue of the North American Free Trade Agreement (NAFTA) specifically our overwhelming support of the trade agreement for reasons which will be stated herein.

The International Trade Council (ITC) is a trade association that represents about 850 exporters and importers throughout the United States. We have members in 49 of the 50 states and represent a very broad section of the U.S. industry. We wrote the first proposal on bilateral reduction of trade barriers in 1979 which led to free trade agreement with Israel in 1984 and subsequently with Canada in 1988. The Mexican agreement is a logical extension of the previous pacts and vital to the growth and economic welfare of the United States. We have divided our argument for NAFTA into two parts. The first will give support for the pact and the latter will rebut the arguments of NAFTA's opponents.

Passage of NAFTA will supply long-term growth for U.S. industries and labor through a lowering of tariffs and removal of trade barriers between the borders. NAFTA will create the world's largest free trade and investment market with 360 million consumers demanding access to U.S. goods, leading to the creation of at least 200,000 U.S. jobs and possibly up to one million jobs over five years. The majority of these jobs will be skilled jobs at above average wages. U.S. exporters will gain substantially from the free trade agreement. Since Mexico's tariffs on U.S. goods are two and a half times as high as U.S. tariffs in Mexican goods. By reducing tariffs through NAFTA, U.S. firms will expand production and thereby help reduce the U.S. trade deficit.

A segment of the U.S. economy which will benefit greatly from NAFTA is the service sector. According to the Coalition of Service Industries, private service exports reached a record high—$42.3 billion in the fourth quarter. One service industry which will see substantial growth after NAFTA is enacted is the transportation industry, specifically trucking. A recent study by the International Trade Commission estimates that NAFTA will boost the U.S. trucking industry's growth by six percent to 15 percent. Ocean and air transportation will also gain beyond the dramatic growth that have been achieved in the last five years.

Also benefiting from NAFTA is the consumer who will be given a wider choice and lower price on many products. A General Accounting Office report states, "The effects of competitiveness reach beyond the successes of individual businesses to the economic well-being of a country's citizens." A competitive nation can only function with success by reducing tariffs and creating free trade thus enabling the country's citizens to boost their quality of life. People who have to count on government assistance programs to put food on the table would find it difficult paying tariffs of 35 on tuna, 17.5% on milk powder, and 17.5 on carrots. Jim Bovard, a trade analyst for the National Center for Policy Analysis reports, "U.S. tariff policy assumes that it is better for the poor to go hungry than to buy inexpensive foreign foods." (Washington Times, July 15, 1992 Editorial) Interfering with consumer's rights by not reducing the existing barriers to trade with Mexico will be detrimental to the United States.

Mexico is the fastest growing market for U.S. manufactured goods. Due to Mexico's comparative advantage in labor and the U.S.'s comparative advantage in technology and capital, trade is expected to surpass Japan as the U.S.'s second largest trading partner in the next year or two. With one-third of the United States' population, Mexico's market potential is very great. Nearly $40 billion worth of Mexico's exports come here annually, and with the passage of NAFTA roughly 65% of all U.S. exports to Mexico can be sold completely duty-free. The additional goods entering Mexico will stimulate the economy creating high levels of investment and eventually contributing to long term stability. Mexican financial institutions can get urgently needed outside capital to modernize their operations and improve their goods while consumers stand to get more choices in their services and products.

Although criticized in the past for being corrupt, having unbeatable control on politics, the leading Mexican political party (the PRI) has broken away from this view. Several key gubernatorial districts were lost by the PRI in the July 1992 elections showing the commitment of the people to a fair democracy. The results of these changes in Mexico have allayed fears of Mexican adverse political development.

Many people would say that Mexico could possibly cooperate by reducing the number of illegal immigrants coming into the United States. With the passage of NAFTA the need for Mexicans to emigrate to the U.S. will be alleviated due to the higher wages and more jobs created by Mexico.

A wide range of NAFTA opponents have created arguments which may mislead the public. For example, statistics have been thrown around regarding the creation of jobs from NAFTA. The Institute for International Economics estimates the U.S. economy would gain an additional 130,000 NAFTA-related jobs by 1995. However, NAFTA opponents respond that Mexico's low wages will create a flood of cheap imports into the U.S. market. They also maintain that a loss of U.S. jobs going to Mexico would follow because American companies will move their factories to Mexico to take advantage of lower wages. The fact is that several thousand U.S. producers have already set up plants in Mexico. The NAFTA will give some companies reason to come back to the U.S. because they will now be able to sell in Mexico without producing there. While some workers will be displaced, the belief that high-skilled U.S. jobs going to Mexican workers is a fallacy. Wages matter, but they are not the only things calculated in costs. A study done by the Congressional Office of Technology Assessment shows that an automobile made in the United States is cheaper to manufacture and transport more than in Mexico. U.S. workers are paid higher because they are generally several times more productive than Mexican workers. They are among the most productive in the world, attracting foreign firms who want to benefit from the human capital available in the U.S. that is why Honda, Toyota and other multinationals set up shop in the U.S., not Mexico. These statistics show how much Mexico has helped U.S. business from 1987–1992. U.S. exports to Mexico tripled and trade balance swung from six billion annual American deficit to a five billion annual American surplus. Trade will flow across the border in increasingly greater amounts and it will not be stopped. The jobs that will be lost through NAFTA will be gone in a few years anyway because of the rapid growth of technology, regardless of the passage of NAFTA. These jobs are low wage, low skill jobs. By retraining the affected worker and qualify them for better jobs, requiring a high skill level, their companies will remain in the U.S. If U.S. companies wanted to go to Mexico to exploit cheap labor, they would have all moved there. To reassure U.S. labor leaders, Mexican President Carlos Salinas de Gortia has announced that Mexico would work towards making minimum wage standards a part of NAFTA. He should also be pointed out that Mexican wages have increased 155% since 1987. Any greater wage growth would rekindle hyperinflation which has recently been reduced from over 100% to 10%, more or less.

There are concerns regarding NAFTA which include drug trafficking, degrading the environment and loss of sovereignty. The assumption that under NAFTA drug trafficking will increase because of less border restrictions is incorrect. Mexico has stepped up its anti-drug enforcement efforts and the treaty will enable the two countries to work together to create tougher anti-drug policy. Without NAFTA this will not occur.

The concern that U.S. companies, eager to avoid strict environmental regulations, will relocate to Mexico were these regulations not strictly enforced has been reduced through side agreements. The trade agreement would shift the industries along the border toward Mexico's center slowing pollution into the U.S. Since Mexico is not living up to costly environmental standards, the best way to strengthen their environment is to enact NAFTA and work side by side with their industries and create a cleaner, safer environment while fostering growth.

A major concern of NAFTA objectors is national sovereignty. However, the commission which arbitrates the NAFTA laws can only ask the U.S. to enforce our own laws and simply prohibit violations. If NAFTA passes Americans would be free to buy Mexican made products and to sell American made products in Mexico. The U. S. has not ceded any sovereignty in signing the agreement and it is regarded as being no different from previously debated bilateral treaties which the U.S. has participated in. NAFTA opponents fail to see how the world has changed and how international trade is vital to the success of U.S. firms. The International Trade Council emphasizes the importance of enacting NAFTA and the role experts will play in creating U.S. jobs. We concur with Former Secretary of Commerce Robert Mosbacher when he said "countries that seize the opportunities created by economic cooperation will deliver rising standards of living to their citizens. Countries that do not are in danger of being left behind." NAFTA will enable the U.S. to maintain its role as a leader in free trade and individual freedom.

For all the above mentioned reasons, we along with our members strongly urge passage of the North American Free Trade Agreement.

STATEMENT OF THE NATIONAL COAL ASSOCIATION

The National Coal Association (NCA) and its affiliate the Coal Exporters Association (CEA) appreciate the opportunity to submit written comments on the North American Free Trade Agreement (NAFTA) and its potential impact on the U.S. coal industry.

NCA is an organization that represents coal producers, coal exporters, equipment manufacturers, resource developers, coal-burning utilities, and transporters of coal. NCA's coal producer members represent approximately 70 percent of the coal produced in all the regions of the United States. NCA members serve all coal markets.

CEA members represent coal producers that export coal as well as coal brokers. These companies represent approximately 80 percent of the coal that is exported from the United States.

In 1992, the United States was the second largest coal exporter worldwide exporting 102 million short tons to more than 40 countries including Canada. This contributes more that $4.2 billion in terms of value to the positive side of the trade balance. Coal exports are the third largest commodity, after wheat and corn exported from the United States. In terms of volume, coal is the largest commodity exported. Australia, Canada, South Africa and Colombia are major U.S. competitors. Typically, about 10 percent of the coal produced in the United States is exported.

More than 20,000 direct coal mining jobs are dependent upon the export of U.S. coal. This activity accounts for an additional 140,000 jobs in U.S. companies supporting the production of coal for export. Coal exports are critical to economies of West Virginia, Virginia, Kentucky, Pennsylvania, Alabama, Utah, Illinois and Alaska. Coal exports move through the ports of Baltimore, Hampton Roads, Los Angeles, Mobile, New Orleans and various ports on the Great Lakes.

The National Coal Association supports the passage of the North American Free Trade Agreement for two very important reasons: (1) NAFTA is good for the United States; and, (2) NAFTA is good for the U.S. coal industry.

NAFTA AND THE UNITED STATES

NAFTA does two things for the United States: (1) It eliminates, over time, tariffs and trade barriers; and, (2) It creates the world's largest trading region with more than 370 million people and a $6.5 trillion market.

No one can deny that Mexico has trade barriers that are higher than the United States. Despite Mexico's progress in voluntarily opening markets, Mexico's tariffs remain 2.5 times higher than U.S. tariffs, which average 4 percent, on Mexican imports. Under NAFTA half of all U.S. exports to Mexico become eligible for zero Mexican tariffs. Within five years of NAFTA's implementation, two-thirds of U.S. industrial exports will be duty free. The end result is that U.S. products become more competitive. Virtually all Mexican protectionism of its industrial and agricultural sectors is eliminated. And, for the first time, the Mexican market will be open to U.S. service industries—banking, insurance, construction and telecommunications.

Even with current trade barriers, Mexico has become the third largest export market for the United States. From a deficit of nearly $6 billion in 1986, the United

States has gone to a surplus of over $5 billion based on $40 billion in export business in 1992. More than 70 percent of all Mexican imports come from the United States. Today, Mexicans purchase more American imports per person than do the Europeans and Japanese.

NAFTA enables the economic strengths of the United States, Canada and Mexico to come together to build a region of more than 370 million consumers. Unless countries in North America work together, we will be at a severe disadvantage as we try to compete with large economic centers in other regions of the world. Europe is moving toward a single integrated economy and at the same time, is aligning itself with Eastern Europe and the Newly Independent States. Japan has been building economic ties throughout Southeast Asia as part of its strategy to compete with the United States and Europe in the 21st century.

NAFTA AND U.S. COAL

NAFTA immediately eliminates the 10 percent tariff on U.S. coal imported into Mexico. This represents a 10 percent improvement in the competitiveness of U.S.coal shipped to Mexico.

Secondly, the Comission Federal de Electricidad (CFE), the state-owned electric utility, has plans to significantly increase its capacity. In 1991, CFE's installed capacity reached 26,797 MW with 60 percent from oil and gas, 30 percent from hydropower, 4 percent from coal, 3 percent geothermal and 3 percent nuclear.

The 1991 Program for Construction and Investment of the Power Sector (POISE), developed by CFE, indicates that 17,000 MW of new capacity will be installed by the year 2001. Of this, 1,400 MW will be in coal-fired power stations and 6,700 MW will be dual-fired, coal or fuel oil, plants. Depending upon oil price projections, 47 percent of the planned new capacity is likely to be coal-fired. This would mean that Mexico would need 28 million metric tons to meet demand. CFE estimates that 7 million metric tons would come from domestic sources and the remainder—21 million metric tons would be imported coal.

While it is very difficult to predict exactly how much of the 6,700 MW of dual-fired capacity will be coal, several factors can influence how much will be used. There is a need for port and coal-handling infrastructure in order for large volumes of coal to be imported. Also, CFE's POISE is reviewed and revised annually and the current program is based on the best estimates of electric generation needs at the time. However, it is clear that Mexico will be using more coal in the future and coal will be imported in Mexico.

The United States is now in a position to compete for the steam coal market in Mexico. However, on January 1, 1994, with the passage of NAFTA and the immediate elimination of the tariff and VAT, U.S. coal exports gain a 10 percent advantage over other competitors (except Canada) competing for Mexico's potential market of 21 million metric tons of steam coal.

Each million tons of U.S. steam coal exported to Mexico will create an average of 220 jobs in coal mining and another 1500 jobs throughout the U.S. economy in support industries for the coal produced. In addition, hundreds of additional jobs will be created in the transportation industries, inland waterways, port and railroads that move the U.S. coal to Mexico.

In addition to the benefit for coal exports, the passage of NAFTA will result in increased economic activity as markets for U.S. exports further develop in Mexico. This means an increase in the demand for electricity in energy intensive domestic industries. In 1990, end use energy consumption in the United States was 36 percent electricity. This is projected to grow to 38 percent by 2010. Since 56 percent of electricity is generated by coal—on average the low-cost fuel source, more domestic coal will be needed to meet demand and more U.S. jobs will be created.

CONCLUSION

NAFTA reflects a U.S. commitment to widen and to improve our ties with our North American neighbors, a commitment that extends South throughout Latin America. The passage of NAFTA and the subsequent economic growth in North America will show democratic governments from Argentina to Venezuela that eliminating trade barriers and developing economic ties with the United States promotes trade, investment and a better standard of living.

NAFTA is about building bridges; not islands.

National Retail Federation,
Washington, DC, October 12, 1993.

Hon. Daniel Patrick Moynihan, *Chairman,*
Senate Finance Committee,
U.S. Senate,
Washington, DC

Dear Mr. Chairman: The National Retail Federation, the nation's largest trade group which speaks for the retail industry, supports the North American Free Trade Agreement (NAFTA). Retailers believe the NAFTA offers significant benefits to the U.S. economy generally, and to retailing specifically. It promises to open new opportunities for American retailers in Mexico, with positive feedbacks to their suppliers in the United States.

American retailers expect the NAFTA will have three important benefits to them and to the U.S. economy generally. The primary benefit will be an expansion of trade and investment opportunities in Mexico. A virtually untapped Mexican consumer market of as many as 90 million individuals offers new potential for American retailers interested in opening stores in Mexico, servicing those stores with U.S. technologies, stocking their shelves with U.S.-made goods, and equipping them with state-of-the-art U.S. retailing technologies.

Several American retailers have had a longstanding presence in the Mexican market, including Sears, Roebuck & Company, Woolworth Corporation, and several food franchises (Pizza Hut, Kentucky Fried Chicken, and TGI Friday's, to name only a few). The prospects for growth in Mexico under the NAFTA have already spurred others to invest in Mexico, including J.C. Penney Company, Wal-Mart, The Price Club, Dillard Department Stores, Blockbuster Video, Baskin-Robbins Ice Cream, Subway Sandwiches and Salads, and numerous others. Mexican retailers are eager to acquire U.S. retailing technologies and expertise, and are actively courting American retailers to be joint venture partners. So far, large American retailers and chains have expressed the most interest in investing in the Mexican market. However, nothing precludes smaller American retailers from undertaking similar projects, particularly through joint ventures with Mexican retailers.

The second important benefit of the NAFTA to the United States and to American retailing is the opportunity the Agreement will provide U.S. retailers to supply their Mexican stores with U.S.-sourced goods and technologies. Reductions in Mexican tariffs will open new markets for American companies and their employees, and the U.S. retailers which open stores in Mexico, to sell U.S.-made goods in a growing Mexican market. Mexican consumers have a decided preference for American-made and American-style goods. Already, Mexicans spend four times as much per capita on American-made products as they do on European goods. Mexico purchases more than two-thirds of its imports from the United States. Mexican consumers are quickly influenced by the latest American trends, due to the ready availability of virtually all U.S. television programs and movies in Mexico, and a high-income consumer segment that travels widely and frequently to the United States, often primarily to shop.

The NAFTA therefore offers significant opportunities to American manufacturers and their employees. Producers of apparel, furniture, automobiles, food products, computers and software, and other important consumer products can expect demand for their goods to grow as Mexican incomes grow. The most recent of the more than 20 virtually unanimous analyses of the likely impact of the NAFTA concluded that the Agreement will raise Mexican wages by as much as 16 percent, employment by as much as 6.6 percent, and real gross domestic product by up to 11 percent.[1] Clearly, these growth prospects are significant and promise important export opportunities for U.S. manufacturers and related industries and their workers.

NAFTA will also increase U.S. income and employment, although more modestly. U.S. wages are expected to increase by up to 0.3 percent, employment by 200,000 workers in its first year, and the real gross domestic product by up to 0.5 percent.[2] While these increases may not seem large, it is important that they are positive. They translate into larger U.S. retail sales.

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[1] U.S. International Trade Commission, *Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement,* Inv. No. 332–337, USITC Pub. No. 2596, January 1993, p. 2–3, and Office of the U.S. Trade Representative.

[2] *Ibid.*

The third significant benefit of the NAFTA to the United States and to American retailing will be the opportunity it will provide to American retailers to shift some of their consumer product sourcing, primarily from the Far East, to Mexico. For example, the NAFTA eliminates immediately tariffs on artificial flowers, ceramics, jewelry, leather handbags, wallets, travel and sports bags, leather apparel and belts, certain toys, Christmas tree ornaments, and kitchen, Office and household furniture. Eliminating tariffs on these items, some of which are currently as high as 20 percent, coupled with the benefits of Mexico's proximity, will make Mexico a lower cost source—which will benefit both American retailers and consumers.

The provisions of the NAFTA related to textile and apparel trade liberalization are not as generous to American consumers or American retailers. Tariffs on most textile and apparel products will be only gradually phased out over a 10-year period. U.S. quotas will be eliminated immediately only on textile and apparel products that meet very restrictive rules of origin: generally, the products must be made in North America from North American origin yarn and North American origin fabric to benefit from the quota eliminations. Quotas on North American products not meeting the rules of origin will be phased out over 10 years. Nevertheless, the Agreement's textile and apparel provisions will provide some increase in the global competitiveness of American producers, strengthening the export potential of the textile and apparel industries and increasing manufacturing employment in the United States.

The National Retail Federation looks forward to working with Congress to suggest ways in which the implementing legislation can make the Agreement's textile and apparel provisions more beneficial to American consumers. In particular, retailers support provisions that would ensure that the implementation of the NAFTA includes review processes that are transparent, dynamic and responsive to the frequent changes in consumer demand, particularly for apparel and other textile products. Retailers believe that a transparent review process is imperative to keep the Agreement flexible and sensitive to the frequent changes in consumer demand which will occur over the course of the 10-year transition period. We are encouraged that the NAFTA provides for special reviews of several provisions of the Agreement relating to textile and apparel trade, including the rule of origin. It also provides for a major review of all of the textile and apparel provisions no later than five years from the implementation of the NAFTA. Review provisions are important and should not be weakened.

Retailers believe that the NAFTA will benefit American consumers and the millions of workers in the retailing, importing, and manufacturing industries. We look forward to working with the Congress in the coming months as it evaluates the Agreement and its implementing legislation to achieve these goals.

Sincerely,

TRACY MULLIN.

STATEMENT PPG INDUSTRIES, INC., GUARDIAN INDUSTRIES CORP., AND AFG INDUSTRIES, INC.

I. Introduction

This statement is presented on behalf of PPG Industries, Inc., Guardian Industries Corp., and AFG Industries, Inc. We are U.S. producers of flat glass and fabricated automotive safety glass. We are grateful for this opportunity to explain why it is imperative that there be a corrective side agreement or side letter, or corrective provisions in the NAFTA implementing legislation, if this U.S. industry is to have hope of a future.

What we face is an enormous disparity between the U.S. and Mexican tariff rates on flat glass and fabricated automotive safety glass, and between the U.S. and Mexican NAFTA phase-out periods for tariffs on those products. We also face an ominous monopoly in Mexico able to use its monopoly power, and its world-class competitiveness, to keep us out of Mexico and to severely undercut our industry on this side of the border.

Let us look briefly at NAFTA, as it now stands, with respect to our industry. Immediately upon NAFTA's entry into force, duties on this side of the border will be eliminated for 99% of Mexican exports to the United States of flat glass and automotive safety glass. That is, our market will be completely open to the exports of Vitro, S.A., the Mexican glass monopoly. The Mexican tariff, however, a rate of 20%, will be phased out over a painstakingly slow period of ten years in most cases. So you see, with respect to flat glass and fabricated automotive safety glass, the NAFTA assures the glass monopoly in Mexico a closed market at the same time that it enjoys unfettered access to the U.S. market. This situation is totally at odds with opening North American markets and enhancing cross-border trade, the supposed centerpieces of the NAFTA.

It is important to note what it means on both sides of the border that the Mexican producer, Vitro, enjoys and will continue to enjoy monopoly power in its home market. Basic principals of economics teach that Vitro's monopoly power in Mexico, reinforced by the high tariff barrier, will permit Vitro to undercut our prices and limit our access to the expanding market in Mexico, no matter what prices we are able to offer. That's what monopoly power and high tariffs mean. Mexico remains the protected province of Vitro. What about on this side of the border? Vitro will compete in this market with a comfortable cushion of home-market, monopolist revenues. With that cushion it will be able to set prices at whatever level necessary to make a sale and to endure even extended losses here. The same losses for U.S. producers--lacking monopolist cushions--will cause us to be severely injured. This is not speculation. This is the economic reality of domestic and international competition when a world-class competitor also has monopoly power in its home market.

Also to be factored in is that the U.S. market for these products is getting smaller while the Mexican market is expanding. United States apparent consumption of these products is contracting largely as a result of reduced construction of buildings and reduced production of motor vehicles in which these glass products are used. The market in Mexico however is expanding along with growth in its construction and automobile sectors. On this basis alone the long phase out period in Mexico is fundamentally unfair.

It is clear under NAFTA's present tariff formula for these products that U.S. producers and workers in our industry are seriously threatened. This is why it is imperative for our survival that the equation be balanced: just as the U.S. tariffs will be nearly totally removed at the outset of NAFTA implementation, the tariffs on the Mexican side of the border must also be gone at implementation.

In our contacts over the past months with members of the House and Senate we have requested support for our request that the United States use the occasion of its side-agreement negotiations to remedy the tariff inequity. We have noted, for instance, the provision in NAFTA that:

> On the request of any Party, the Parties shall consult to consider accelerating the elimination of customs duties set out in their Schedules. An agreement between two or more Parties to accelerate the elimination of a customs duty on a good shall supersede any

> duty rate or staging category determined pursuant to their Schedules for such good when approved by each such Party in accordance with its applicable legal procedures.

NAFTA, Chapter 3, Article 302. Consultations or negotiations aimed at accelerating tariff elimination cannot be expected to yield meaningful results, however, if they occur after NAFTA implementation, when bargaining power will have evaporated. The side agreement negotiations would have offered a ready-made opportunity for obtaining a pre-ratification agreement by Mexico to eliminate its tariffs on U.S. flat and automotive safety glass exports.

We are grateful for the many members of Congress which have asked the past and present administration for modification of NAFTA's provisions on flat and automotive glass tariffs. It is still within the grasp of this administration to seek agreement with the Mexican authorities for immediate elimination of the Mexican tariffs even though the recently completed side agreements do not include such an agreement. Because the administration has not been able to assure that it will be either willing or able to do what is necessary to obtain such an agreement, we ask for this Committee to include corrective measures in the NAFTA implementing legislation.

Below, we give more details on the relevant terms of NAFTA, the highly competitive producer in Mexico and its competitive advantages, market forces in the United States and Mexico, and ways in which we believe this Committee and Congress can provide a solution.

II. U.S./Mexico Tariff and Tariff Phase-Out Disparity; Need for Acceleration of Tariff Elimination in Mexico

NAFTA's present formula for flat and automotive glass assures that Vitro S.A., the huge Mexican glass monopoly, will be shielded from meaningful competition in its home market for another decade at the same time that it enjoys unfettered access to this market. Vitro's access to this market will increase when U.S. tariffs on 98.6% of U.S. imports of flat glass and automotive safety glass markets from Mexico are permanently eliminated immediately upon implementation of the NAFTA. See, e.g., U.S. International Trade Commission, Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement, Inv. 332-337, USITC Pub. 2596 (Jan. 1993) at II-2. Of the 1.4% of imports from Mexico on which U.S. duties will not be eliminated immediately, 1.33% will be phased out over eight years and 0.07% over ten years. Id. That is, any delays in U.S. duty elimination will be insignificant. Moreover, the present average U.S. tariff on dutiable imports from Mexico is only 4.8% ad valorem. Id. See table following.

The treatment of U.S. exports to Mexico, both presently and under NAFTA, is entirely different. The Mexican tariff is 20% on twenty-nine of the thirty eight-digit items of concern (the exception being one item with a rate of 10%). The NAFTA phase out period is ten years for all but four of the thirty items, representing the vast majority of product quantity in demand in Mexico. See table following.

Hence, whereas the present average U.S. tariff rate on dutiable imports of flat and automotive glass from Mexico is 4.8% ad valorem, the rate in Mexico is 20% for virtually all categories. Whereas U.S. tariffs on 98.6% of imports from Mexico will be eliminated immediately upon implementation of NAFTA, tariffs in Mexico on the U.S. exports of these products will not be gone until the end of ten years.

The Mexican producer thereby preserves its monopoly position and closed market in Mexico while gaining free access to our market.

III. The Mexican Producer is a Monopoly, Highly Competitive In Both the Expanding Mexican Market and the Stagnant U.S. Market, Without Need of Tariff Protection At Home While Enjoying Full Access to the U.S. Market At the Expense of the U.S. Industry

The competing industry in Mexico has neither a need nor a reasonable right to a protected market while it enjoys free access to the U.S. market.

The flat glass and fabricated automotive glass sectors in Mexico are dominated by Vitro S.A., a multibillion dollar consortium, using state-of-the-art technologies and enjoying monopoly power in the glass sector. Vitro began in 1909 and has evolved into one of the world's largest glass corporations, with more than 80 individual enterprises located mainly in North America. It has annual sales of $3.3 billion, operating income over $350 million, and assets of about $4.5 billion. In addition to flat glass, Vitro's subsidiaries produce other glass products and non-glass products.

COMPARISON OF U.S. AND MEXICAN TARIFF PHASE-OUTS ON FLAT GLASS AND AUTOMOTIVE SAFETY GLASS UNDER THE NAFTA

	HTS No.	Current Duty	Phase-Out Period	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
FLOAT GLASS IN SHEETS, NONWIRED GLASS, HAVING AN ABSORBANT OR RELECTING LAYER													
U.S.	7006.10.00	4.9%	Immediate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
MEXICO	7006.10.01	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
	7006.10.02	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
	7006.10.99	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
FLOAT GLASS IN SHEETS: OTHER NONWIRED GLASS, COLORED THROUGHOUT THE MASS													
U.S.	7006.21.10*	4.1%	10 years	3.7%	3.3%	2.9%	2.5%	2.1%	1.6%	1.2%	0.8%	0.4%	0.0%
	7006.21.20	6.3%	10 years	5.7%	5.0%	4.4%	3.8%	3.2%	2.5%	1.9%	1.3%	0.6%	0.0%
MEXICO	7006.21.01	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
	7006.21.02	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
	7005.21.99	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
FLOAT GLASS IN SHEETS: OTHER													
U.S.	7006.29.06**	1.9%	8 years	1.7%	1.5%	1.3%	1.1%	1.0%	0.8%	0.6%	0.0%	0.0%	0.0%
	7006.29.16***	3.5%	8 years	3.2%	2.8%	2.5%	2.1%	1.8%	1.4%	1.1%	0.0%	0.0%	0.0%
	7006.29.25	6.5%	Immediate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
MEXICO	7006.29.01	10.0%	6 years	8.0%	6.0%	4.0%	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	7006.29.02	20.0%	8 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	0.0%	0.0%	0.0%
	7006.29.03	20.0%	7 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	0.0%	0.0%	0.0%
	7006.29.99	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
FLOAT GLASS IN SHEETS: WIRED GLASS													
U.S.	7006.30.00	32.3¢/m2	Immediate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
MEXICO	7006.30.01	20.0%	5 years	16.0%	12.0%	8.0%	4.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	7006.30.99	20.0%	5 years	16.0%	12.0%	8.0%	4.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOUGHENED (TEMPERED) SAFETY GLASS: OF A SIZE AND SHAPE SUITABLE FOR INCORPORATION IN VEHICLES, AIRCRAFT, SPACECRAFT OR VESSELS													
U.S.	7007.11.00	6.2%	Immediate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
MEXICO	7007.11.01	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
	7007.11.02	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
	7007.11.03	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
	7007.11.04	10.0%	Immediate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	7007.11.05	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
	7007.11.06	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
	7007.11.99	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
TOUGHENED (TEMPERED) SAFETY GLASS: OTHER													
U.S.	7007.19.00	6.2%	Immediate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
MEXICO	7007.19.01	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
	7007.19.02	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
	7007.19.99	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
LAMINATED SAFETY GLASS: OF A SIZE AND SHAPE SUITABLE FOR INCORPORATION IN VEHICLES, AIRCRAFT, SPACECRAFT OR VESSELS													
U.S	7007.21.10	5.5%	Immediate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	7007.21.50	5.6%	Immediate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
MEXICO	7007.21.01	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
	7007.21.02	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
	7007.21.03	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
	7007.21.04	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
	7007.21.99	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
LAMINATED SAFETY GLASS: OTHER													
U.S.	7007.29.00	5.5%	Immediate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
MEXICO	7007.29.99	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
MULTIPLE-WALLED INSULATING UNITS OF GLASS													
U.S.	7008.00.00	4.4%	Immediate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
MEXICO	7008.00.01	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%
	7008.00.99	20.0%	10 years	18.0%	16.0%	14.0%	12.0%	10.0%	8.0%	6.0%	4.0%	2.0%	0.0%

Notes: * Actual duty of 16.1¢/sq.m.+0.4% has been calculated to be approximately 4.1% for purposes of this table.

** Actual duty of 20.8¢/sq.m. has been calculated to be approximately 1.9% for purposes of this table.

*** Actual duty of 16.1¢/sq.m. has been calculated to be approximately 3.5% for purposes of this table.

Under the Generalized System of Preferences (GSP) the following HTS Nos. are eligible for duty-free status: 7005.10, 7005.29.25, 7005.30, 7007.11, 7007.19, 7007.21, 7007.29, & 7008.00

Source: NAFTA Tariff Schedules, Office of the United States Trade Representative

While direct exports represent about 20% of total sales by Vitro's facilities in Mexico, Vitro retains the protection of monopoly power and tariff barriers which permit it to control and limit import competition in glass products in Mexico.

> It is also in the interest of U.S. companies that foreign monopolies be restrained so that they do not use their profits to break into U.S. markets. Once here, such companies can rely on revenue from the parent's protected home business to weather competition that wipes out U.S. firms.
>
> * * *
>
> Currently, Guardian cannot easily compete with Vitro in Mexico for two reasons [Guardian's Vice President] said: First, the 20 percent tariff on glass exports to Mexico, and second, the Detroit company has alleged that Vitro has used various tactics to discourage competition in Mexico. For example, Guardian has alleged that Vitro has driven off rivals by responding to their entry in a market by lowering prices sharply in a predatory manner and making it difficult for the newcomer to compete.
>
> "It is a mess, but it's the nature of the beast," [Guardian's Vice President] said. "That's how monopolies behave."

Glater, Jonathan D., Busting Trusts, South of the Border, Wash. Post, Aug. 21, 1993, B1, B6.

Vitro's float glass interests consist essentially of two companies, Vitro Flotado and Vidrio Plano. These producers have been identified by the International Trade Commission as among the most competitive float glass producers in the world. Foreign Investment Barriers or Other Restrictions that Prevent Foreign Capital from Claiming the Benefits of Foreign Government Programs, USITC Pub. 2212 at 2-11 (1989). Vitro's flat glass division is 35% owned by the world's leading flat glass producer, Pilkington Brothers, Ltd. USITC Pub. 2596 at II-1. That relationship guarantees Vitro access to the highest levels of technology and marketing. Pilkington has about $5 billion in annual sales. It invented the float manufacturing process. Hence, as a November 19, 1991 prospectus issued by Vitro (p. 45) explains, its equity/technology partnership with Pilkington gives it ongoing access to "the leading technology in the flat glass industry."

Vitro also has the controlling interest in five automotive glass companies: Cristales Inastillables de Mexico ("Crinamex"), Vitroflex, Vidrio Plano, Auto Templex, and Shatterproof de Mexico. Like Vitro's float glass producers, these companies are state-of-the-art and world-class competitors. In the case of automotive glass, Vitro reports that it exported to the United States in 1992 product valued at about $75 million from Vitro Flex alone, in addition to controlling 90% of the $1 million car set OEM market in Mexico. This is a good illustration of the dual effects of the Mexican producer's having access to this market while U.S. producers are denied meaningful access to the Mexican market.

Moreover, Vitro has strong resources and a demonstrated access to international capital markets. For instance, "16 international banks and an arm of the World Bank ... [lent] glassmaking giant Vitro $126 million for up to 10 years. In addition, the International Finance Corp., the World Bank unit that extends credit to private companies, said it will invest $10 million in the company's stock." Mexican Glassmaker Gets Foreign Loans, LA Times, Oct. 25, 1990, D2. "The banks agreed to lend Vitro the money at a favorable interest rate of 2 percentage points over the London Interbank Rate." Id. (emphasis added). Vitro's profitability, ready access to capital, and ease of cross-border trade and investment--and, hence, that it does not require high tariff walls--are also demonstrated by investments in joint venture arrangements with U.S. firms: Vitro's cash payment of $130 million in a joint venture arrangement with Corning in the household glassware sector (Financial Times, Aug. 7, 1991, p.11, NY Times, August 7, 1991, p. D1); another joint venture arrangement with World Tableware International in the United States in the same sector, (PR Newswire, July 25, 1991); and a cash payment of $440 million plus the assumption of $460 million in debt to acquire Anchor Glass Container Corp. in the United States (NY Times, August 7, 1991, p. D1).

Improvements in the economy of Mexico, increased construction, and the establishment of automobile and truck production facilities by a number of foreign firms makes Mexico a growth market for flat and auto glass. Asian, European, and U.S. companies are investing heavily in the Mexican automotive industry. Ford Motor Company de Mexico S.A. has spent nearly $1 billion renovating three plants to produce Escorts and Tracers for the U.S. market. Chrysler and General Motors have been producing vehicles in Mexico for a number of years. Together they exported approximately 114,000 vehicles in 1990. Volkswagen de Mexico S.A. recently announced that it will be increasing both export and domestic volume at its Puebla plant and has spent $1 billion in renovations to expand annual capabilities to three hundred thousand units. Nissan Mexicana is also investing $1 billion in a plant scheduled to open this year. According to Vitro, already the automotive glass market in Mexico increased 27.7% between 1989 and 1990. See Vitro Annual Report, 1990 at 8. Since 1982, the Mexican market has enjoyed an automotive trade surplus with the United States. Similarly, the Mexican construction industry experienced a boom from 1986 to 1991. New construction put in place rose from $11 billion in 1986 to nearly $14 billion in 1991, a 26% increase. The flat glass market for the construction industry in Mexico expanded by 6% between 1989 and 1990 alone. The overall Mexican economy, as measured by GDP, expanded by 4.0% in 1991 and is forecasted to grow by 4.5% to 5.0% during the next few years. U.S. Industrial Outlook '92 at 9.

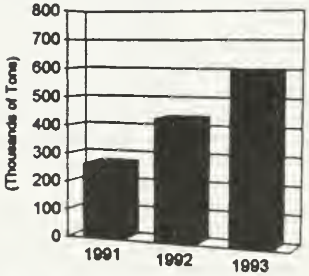
Vitro's monopoly position in the lucrative Mexican market permits it to use profits both to further expand its capacity, aggressively acquire U.S. firms and U.S. market share, and expand its already highly-developed distribution infrastructure in the United States. Related directly to flat glass, in May 1992, Vitro purchased ACI America Inc. for $82.6 million. Francisco J. Villegas, Vitro Group up to Purchase Another Glass Plant in the US, El Norte, May 20, 1992. ACI America is a leader in the wholesale and retail distribution of float glass for the automotive and construction sectors in the United States. Id. The company has more than 120 outlets in the western and southern regions of the United States. Id. In addition to augmenting the already-sophisticated network Vitro has in place in the United States, the ACI acquisition further demonstrates Vitro's extensive financial resources and its intention to use those resources to become a dominant force in the U.S. market.

Vitro has also announced plans to build a huge, nearly 500,000 square foot warehouse in Laredo, Texas as part of its U.S. distribution network. This warehouse is the equivalent of ten acres under one roof and can store the equivalent of six months production of an entire float glass plant.

In an apparent reference to the ACI acquisition and the warehouse expansion, the International Trade Commission states that "[t]he Mexican industry has improved its service potential in the U.S. market by purchasing U.S. distribution facilities." USITC Pub. 2596 at II-3.

Increasing its capacity to supply its U.S. distribution network, Vitro recently built a second plant in Monterrey, near the U.S. border. The new plant commenced operations in October 1991 and, by Vitro's own estimation, will increase Vitro's flat glass production capacity by 89% by 1993. Securities and Exchange Commission Form F-1 Registration Statement, Vitro, S.A. October 30, 1991, p. 44. Vitro's glass production capacity has increased from 265,000 tons annually in 1991 to 600,000 tons this year. See Chart below. Vitro has plans to build a third plant in Monterrey by 1995, which will provide Vitro hundreds of thousands of tons of additional production capacity. The proximity of Monterrey to the United States border, where three-quarters of Vitro's flat glass production is presently housed, enhances Vitro's ability to ship its increased production to the United States. Indeed, given that 80% of the market for flat glass in Mexico is in the Mexico City area, nearly 1,000 miles south of Monterrey, and that transportation costs for flat glass in Mexico are relatively high (USITC Pub. 2596 at II-2), the expansion of production capacity in Monterrey is clearly aimed at increasing exports to the United States.

VITRO'S FLAT GLASS CAPACITY



Source: Vitro, Sociedad Anonima, Form F-1, SEC, October 30, 1991 at 44

Not only is Vitro as advanced and competitive as any producer in the world, it enjoys a number of important cost advantages compared with U.S. producers. It has a staggering competitive advantage in labor costs: $2.20/hour, including benefits, for production workers in the glass sector in Mexico, versus $16-30/hour, including benefits, for similar workers in the United States. It also has an advantage in fuel costs. U.S. International Trade Commission, Foreign Investment Barriers or Other Restrictions That Prevent Foreign Capital from Claiming the Benefits of Foreign Government programs, USITC Pub. 2212 (Aug. 1989) at 2-12; see also U.S. International Trade Commission, The Likely Impact on the United States of a Free Trade Agreement With Mexico, Inv. No. 332-297, USITC Pub. 2353 (Feb. 1991) at 4-31, and USITC Pub. 2596 at 11-2. Vitro also has lower costs with respect to certain key glass raw materials, including sand, soda ash and feldspar. E.g., USITC Pub. 2596 at 11-2.

Moreover, Vitro's production lies only 140 miles from the U.S. border, in Monterrey, providing it the same or better access to major U.S. markets as U.S. producers.

At the same time, in the U.S. market, demand for flat glass is contracting due to the correlation of the flat glass industry with the construction and automotive sectors. During the period from 1988 to 1992, both the construction and the automotive industries endured severe slumps in the U.S. market. The value of new construction declined in the construction industry, in real terms, from $415 billion in 1988 to $380 billion in 1991, a decline of more than 8.4%. The Commerce Department estimates that new construction will rise by only 1.0% per year through 1996. U.S. Industrial Outlook at 7-11 (1992). The International Trade Commission characterizes the investment conditions for the flat glass industry in the United States as unfavorable, citing recent investment, existing excess production capacity, and weak demand in the principal flat glass markets, i.e., construction and automobiles. USITC Pub. 2596 at II-2. The excess capacity problem is likely to remain until the end of the decade. Id. Additionally, the share of total imports held by imports from Mexico continues to grow.

There is vigorous competition in the U.S. flat glass market, with price differences as small as one percent often determining purchasing decisions. Already the economic slump in the U.S. construction and automotive sectors has caused depressed prices and the shutdown of five float glass plants in the United States (approximately 10% of domestic capacity). Float glass prices have fallen by 25% in the past two years. Employment in the U.S. market already dropped from 14,600 in 1987 to 13,000 in 1991, a decline of 11%. U.S. Industrial Outlook at 7-11 (1992).

The following apparent consumption table illustrates the progressive contraction of the U.S. market.

U.S. Apparent Consumption of Flat Glass and Flat Glass Products
(In Millions of U.S. Dollars)

1987	1988	1989	1990	1991	1992
3,655	3,510	3,410	3,012	2,715	2,492

Source: U.S. Industrial Outlook 1993, U.S. Department of Commerce, Bureau of the Census (1992 estimated by Department of Commerce)

Accordingly, the most relevant facts concerning our request can be simply summarized. Vitro enjoys considerable cost advantages, is as technologically advanced and internationally competitive as any of the leading flat glass producers in the world, possesses the additional advantages of monopoly power in its expanding home market, and is expanding geometrically its production capacity near the U.S. border and its distribution and warehousing infrastructure in the United States, notwithstanding contraction of the price-sensitive U.S. market. These facts can in no way justify granting Vitro immediate access to the U.S. market at the same time that competition in Mexico is restricted by Vitro's monopoly position and a 20% tariff rate, which is to be eliminated only at the end of a ten-year transition period.

The U.S. flat glass industry has concluded that it would be worse off if NAFTA is implemented in its current form than if it is not enacted at all. Without NAFTA it could at least petition USTR to revoke the Mexican flat glass industry's tariff preference under the Generalized System of Preferences (GSP). Mexican competitiveness in flat and automotive safety glass products makes its preferential GSP status particularly unwarranted. We have in fact petitioned in the 1993-94 GSP review for removal of Mexico's GSP treatment from four glass product categories. Its competitiveness, which resulted in automatic removal of its GSP treatment on one product, was demonstrated by Mexico's exceeding the GSP statute's "competitive need limit" last year.

Unless the present tariff disparity is eliminated, the U.S. flat glass industry estimates that the Mexican flat glass monopoly will capture at least 13 percent of the overall U.S. flat glass market, including 26 percent of the market in the Southwest and West, long before NAFTA, as proposed, would allow compensating competition in Mexico.

If the agreement is approved as currently written, the effects of Vitro's tariff preference in the United States, its monopoly power in Mexico, its other competitive advantages, and its expanding production capacity in Mexico and distribution network in the United States will likely include substantial plant closings and the loss of thousands of U.S. workers' jobs in both the glass industry and related sectors. Vitro's explosion into this market from a posture of home market protection spells serious trouble for the U.S. producers and their workers.

IV. Conclusion: Need for Provision in a Side Agreement or Letter, or In the Implementing Bill, to Assure Accelerated Elimination of Flat Glass and Automotive Safety Glass Tariffs In Mexico

Although the American flat glass industry is extremely competitive globally, thousands of U.S. manufacturing jobs and related positions in service industries are threatened because the NAFTA gives the Mexican flat glass monopoly this extraordinary tariff advantage over flat glass manufacturers located in the U.S.

The U.S. flat glass industry is not looking for protection from Mexican imports. All it asks is fair and equal treatment, and an opportunity to compete on both sides of the border. Moreover, the Mexican flat glass industry does not need protection--as evidenced by, among other things, its high profit margins. It boasts some of the world's largest, most modern glass making facilities, inexpensive labor, and competitive raw materials. American glass producers are more than ready to compete on both sides of the border if we are given a level playing field.

The ways we believe our concerns could be addressed by USTR prior to implementation or by Congress in the NAFTA implementing legislation include:

1. **A side letter of agreement offered by the Mexican government assuring that, immediately upon implementation of the NAFTA, Mexico will accelerate elimination of tariffs on flat glass and automotive safety glass to a position of parity with U.S. tariffs under the NAFTA (the recent Mexican letter regarding opportunities for the U.S. insurance industry in Mexico is a precedent in this regard);**

2. **Inclusion of a provision in the NAFTA implementing legislation stating as a condition precedent to the NAFTA's taking effect that the Mexican government agree to accelerate the elimination of tariffs on flat glass and automotive safety glass to a position of parity with U.S. tariffs under the NAFTA.**

For NAFTA to be a success, "free trade" must mean that goods move freely in both directions across the borders of North America. Very simply, accelerating the removal of Mexico's unfair tariff on American flat glass is the only solution consistent with the purpose of NAFTA and with the health of the U.S. industry, as well as with the objectives underlying this nation's antitrust laws.

STATEMENT OF THE NATIONAL FARMERS UNION

Thank you for the opportunity to present the position of the 250,000 farm ranch and rural families of the NFU on the proposed NAFTA. Last week approximately 250 of our members traveled to Washington D.C., at their own expense, to discuss their concerns on NAFTA with all the members of Congress. Our farm delegates were surprised when some Members of Congress stated that they were unaware of farm opposition to NAFTA.

Today, I wish to emphasize our message -- NOT THIS NAFTA!

A question often asked is whether organizations who oppose the current agreement could support any trade agreement. The answer is yes. National Farmers Union is a strong advocate of trade. We support the establishment of international rules and regulations which enable the fair trade of goods and services in a manner that provides a fair return to the producer and promotes environmentally sound production methods.

However, we do not believe it is necessary nor beneficial to accept an agreement which trashes the social, economic and environmental gains we have achieved, all in the name of free trade.

In previous testimony, we have gone on record in support of the resolutions passed by Congress which set forth certain guiding principles that must be met by U.S. trade agreements. Last fall, NAFTA was announced and many, including Majority Leader Richard Gephardt, pointed out that it did not meet the standards, and must be renegotiated. Others, including President Clinton, took the position that there were problems, but that points of concern could be addressed with the addition of side agreements.

Now we have read the side agreements and our earlier concerns remain valid. Our analysis of the proposed agreement shows that NAFTA will be a giant step backward, not only for our friends with labor and environmental concerns, but specifically for North American farmers. Today I intend to point out the inequities and lack of safeguards for agriculture in the proposed NAFTA.

Our concerns fall under 4 general categories, which will affect our members not only as family farmers, but as consumers and taxpayers as well.

1. Food safety - including inadequate inspection, the use of banned chemicals, meat inspection problems under the CFTA, and animal disease.

2. Displacement of our markets for commodities - caused by transshipment concerns, the accession clause, and inadequate country of origin provisions.
3. Loss of means for redress against trade violations - including the loss of Section 22.

4. Loss of farm income - including the loss of off-farm employment opportunities.

Failure to add safeguards to address these areas will result in a loss of farmers, not only in our country, but in Mexico and Canada as well. The lack of safeguards carries over into the concern of environmental abuse in Mexico as livestock feedlot expansion occurs, dairy factories increase in number, large fruit and vegetable producers move south of the border. In addition, the NAFTA lacks safeguards to protect children and other workers from exploitation.

I. Food Safety

Many take it for granted that all we have to do is go to the grocery store, where we choose from the freshest fruit, a large selection of attractively packaged meat and all types of dairy products. Will this change with NAFTA? We believe it will. Suppose USDA and EPA suddenly decided that chemicals which had previously been banned on food for human consumption were now okay for use -- not because the danger had lessened, but because they were convenient to use. Suppose they further decided that dairy farmers should be able to stretch their production by adding water and vegetable oil to milk? Suppose they decided to forego inspection of meat plants, or to change current regulations which prohibit the sale of meat contaminated with feces and urine?

No one would agree to these changes, and yet it has been documented that these problems currently exist with imports and will be exacerbated if we step up trade without addressing them. When confronted with these problems, free-traders often respond that a trade agreement is not the proper forum. This ignores the reality that behavior is tied to profit. There is clearly a financial incentive not to comply with restrictions. If at the same time, there is no reason to comply with standards, i.e., no trade sanctions, then laws on food safety, as well as worker safety and environmental protection will be ignored.

An important safeguard that is missing is the assurance of both the quality and quantity of border inspections for commodities traded.

The Government Accountability Project (GAP) has documented the problem with meat inspection under the U.S./Canada Free Trade Agreement. Under the CFTA, meat inspection has turned into paperwork inspection.

GAP has also documented the problem of trans-shipment. Under the CFTA, Australian beef is shipped into Canada and then comes into the U.S. as Canadian beef. Because it is not produced in Canada or sold for Canadian consumption, it is not inspected in Canada. At the same time, because it comes over the U.S. border as Canadian beef, it is not inspected as Australian beef, nor does it apply toward the import quotas and tariffs normally applied to Australian beef.

What then, are the implications for the U.S./Mexican border?

If current inspection under the Canadian/US agreement is any indication, and we believe it is, then the process would better be labeled a paper certification inspection. We clearly have stronger inspections between states and within our marketing structure and processing system than exist at either our Canadian or the Mexican borders. In the absence of strong corrective measures, we believe the problem will become even worse as trade is increased.

Safeguards are also needed to protect against the spread of animal disease, which could have disastrous consequences. GAP reports that since 1982, the number of steers imported annually from Mexico has quadrupled, and so has the incidence of TB in cattle. In 1992, 83 percent of the cases of Bovine TB were found in Mexican cattle. Bovine tuberculosis is more than a disaster for cattle producers -- it can also cause TB in humans. Yet, a USDA veterinarian has testified that he was ordered to release for human consumption a beef carcass with laboratory confirmed evidence of TB lesions.

Food safety and human health will also be jeopardized if imports produced with banned or restricted pesticides are allowed to come up across the border. GAO found 58 pesticides which could not be used in the U.S., but which are allowed in Mexico. Clearly, pesticides not safe for use within the United States are also not safe if they are introduced into the food supply via imports.

II. Loss of U.S. Market Access

The NAFTA is supposed to increase our market access. Yet in some instances, it actually decreases market access, by adding new tariffs and restricting many existing markets. Corn, barley, wheat, beans, milk, and cheese products have either less access or higher tariffs, or both for the immediate future. Yet the agreement allows Canada to maintain significant commodity protection and transportation assistance.

In documenting our case, I draw your attention to the accompanying chart A-1, drawn from the Mexican tariff schedule. In the case of dry edible beans, between 1989 and 1991, the U.S. average annual export volume of beans to Mexico pursuant to CONASUPO license, was 90,276 metric tons with no tariff. NAFTA cuts our tariff-free access from over 90,000 metric tons to 50,000 metric tons. Sales over that amount have a tariff of 139 percent, but not less than $480 a ton.

This new tariff will come down slowly over 15 years and the quota will increase by 3 percent a year over 15 years.

The situation we believe gives China the advantage to export more beans to Mexico as they continue to operate under the old CONASUPO licensing system with no tariffs!

On wheat, Mexico has imposed a new 5 percent addition to the existing 10 percent tariff on durum wheat, and imposed a new 15 percent tariff on all other wheat, in exchange for the free CONASUPO license.

Canada, meanwhile, will maintain its transportation assistance in marketing its wheat to Mexico, as well as the United States. The attached chart A-2 shows the increase in durum, all wheat, and barley to the U.S. from Canada since the implementation of the Canadian Free Trade Agreement.

Charts A-2 and A-3 clearly document the increased import levels from Canada since the implementation of the Canadian Free Trade Agreement in peanut products, sugar products, beef and beef products, pork, wheat, and barley, and clearly demonstrate the need to correct these inequities. There is no reason to believe that such activities will not occur under the Mexican/U.S. agreement at an even greater level and quantity base.

This year the United States made a significant investment in using the Export Enhancement Program (EEP) to allow us to compete favorably with Canada on wheat sales to Mexico. Yet, because there are inadequate rules of origin, the is no way to ensure that the United States is not expending EEP dollars to export Canadian produced wheat! If we further open our borders without correcting this problem, what other countries will send us commodities to be exported with our EEP funding?

We are also concerned that NAFTA may jeopardize our ability to continue use of the Dairy Export Incentive Program (DEIP) on sales of milk to Mexico.

III. Loss of Ability to Address Trade Inequities

The U.S. eliminates restrictions on access to its market immediately, as well as removes the only tool of recourse if trade abuse occurs, in giving up Section 22 in our agreement with Mexico. Section 22 of the Agriculture Adjustment Act of 1933 allows the Secretary of Agriculture and the President to take immediate action if they believe a condition exists requiring emergency treatment.

In analyzing what has taken place with certain commodities under the Canadian/U.S. Free Trade Agreement, the Clinton Administration has now seen the need to take and consider Section 22 action. The accompanying chart A-3 reports the increase in peanut butter and peanut paste at 567 percent from 1989 to 1992 and an increase of 3021 percent in sugar products from 1989 to 1992.

Chart A-2, referred to previously, clearly shows the import surge of durum, barley, and all wheat that has occurred from Canada since the implementation of the Canadian Free Trade Agreement. The only tool available to the Administration to respond to the detrimental trade action is Section 22.

The only other option for impacted producers of a particular commodity is to file a complaint through a binational panel, at a cost per case of several hundred thousand dollars.

Within the Mexico/U.S. agreement,there is no enforceable way for the U.S. government to intercede on behalf of producers if flagrant trans-shipment of commodities occur, nor to intercede if import surges occur.

IV. Loss of Farm Income

Some may characterize NAFTA as a method of redistributing the wealth. We believe farmers in both the United States and Mexico will be the donors.

Free trade proponents like to cite a recent study claiming that corn prices may increase by $.06 per bushel under NAFTA. It is worth noting that this study does not make any claims of gains for any other U.S. agriculture commodities. We also point out that the $.06 for our farmers comes at the expense of an estimated 3 million Mexican corn farmers who will lose their farms, jobs, and homes when their prices are cut by one half.

One of the biggest threats to U.S. farm income under the NAFTA is the loss of Section 22, which allows us the ability to stabilize our domestic food supply. Currently used for dairy, sugar, peanuts, and cotton, Section 22 is available and has been used for many other commodities, including wheat, barley, rye, oats, and others. NAFTA eliminates our import controls in favor of tariffs, which are then phased out, over periods of 5, 10, and 15 years.

The loss of import controls, coupled with the problems caused by inadequate rules of origin and trans-shipment, combine to produce a serious threat to producer income and will also negatively impact U.S. taxpayers.

The problem becomes even worse when one considers that NAFTA provides an incentive for farms to be moved south of the border, due to cheaper labor and land, and lack of enforcement regarding environmental restrictions. Family farmers do not have the incentive to move. However, agribusiness does.

A Texas dairy farmer compared his costs of production to those of a Mexican counterpart. The Texan paid his workers $40 a day, along with social security and workmen's compensation. His land costs were higher, his fuel costs were higher, and his environmental restrictions more severe. His Mexican friend paid his workers $3.00 a day, with no benefits, and paid less for the chemicals and pesticides he used on his farm. The result was no surprise. The Mexican farmer had a much higher profit margin.

The projected loss of jobs is often cited by labor unions. This loss is also serious for farm families, since off-farm income is often the source of cash flow that provides day to day living expenses for our members. When off-farm income is separated out from farm income, USDA figures reveal that the average annual farm net income is less than $4,000 per year!

Conclusion

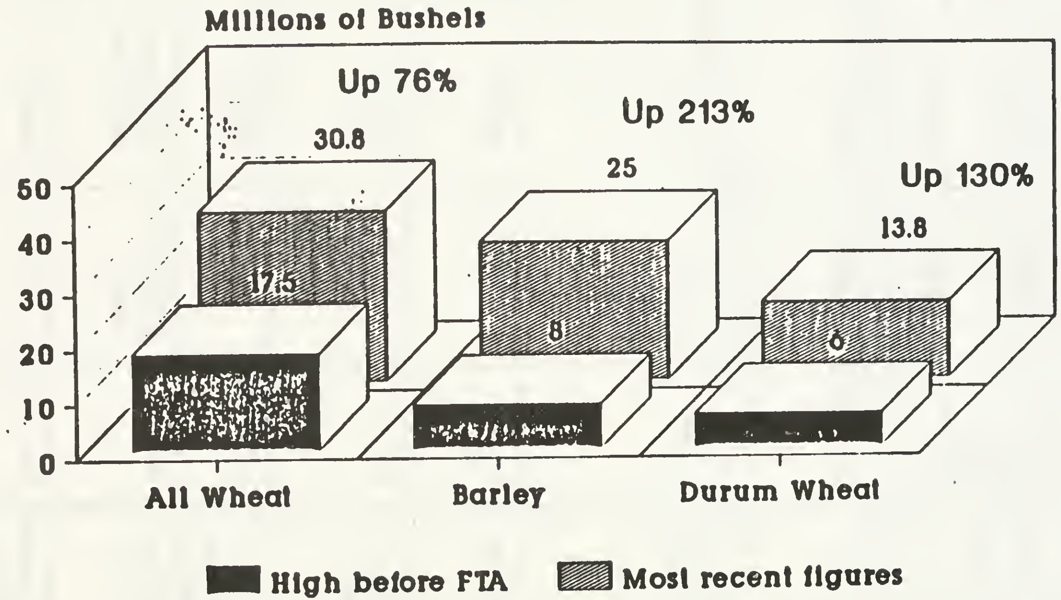
Some tell us that the decline of the American farm family is inevitable. If the United States continues to accept agreements such as the NAFTA, we will seal this fate.

Chart A-1

PRESENT RESTRICTIONS	COMMODITY	TARIFF FREE QUOTA	1989-1991 AVERAGE EXPORTS	1994 TARIFF OVER QUOTA
$.77/kilo $7.70/MT—Import License	Wheat including durum	0	254,258 MT	15% reduced to 0 over 10 years
$.02/kilo	Corn	2.5 Mil. MT	2,834,931 MT	$206/MT but not less than 215%. Reduced to 0 after 15 years
$.23-.34 kilo on barley/	Barley	120,000 MT	188,000 MT	$155/MT but not less than 128% for barley; $212/MT but not less than 175% for malt. Reduced to 0 after 10 years.
Duty free except 15% between Aug. 10-Jan. 31	Soybeans	Unlimited	1,145,436 MT	Seasonal tariff reduced from 15% to 10% and the dutiable season reduced from Aug 1-Jan 31 to Oct 1-Dec 31. Tariff to be reduced over 10 years.
Import Licensing Systems	Dry Edible Beans	50,000 MT	90,275 MT	$480/MT but not less than 139%. Reduced to 0 after 15 years.
$2.24/kilo on fresh, chilled and frozen pork	Hogs & Pork	353,000 HD 21,032 MT	124,430 HD 88,500 MT	In quota 18% to be eliminated over 10 years. Over quota 20% to be eliminated at the end of year 10.
15% on live slaughter cattle 20% on fresh and chilled beef	Cattle & Beef	0	133,079 HD 41,146 MT	Tariffs to be eliminated
Import license on milk powder and cheese	Dairy	40,000 MT of milk powder 0—cheese	41,315 average milk powder 1,893 MT/Cheese	$1,160/MT not less than 139% 20% cheese tariff to be reduced over 10 years
10% for rough and broken rice 20% for brown and milled rice	Rice	0	135,506 MT	Present tariffs to be phased out over 10 years
Licensing system	Tobacco	0	2,886 MT	50% tariff to be eliminated over 10 years

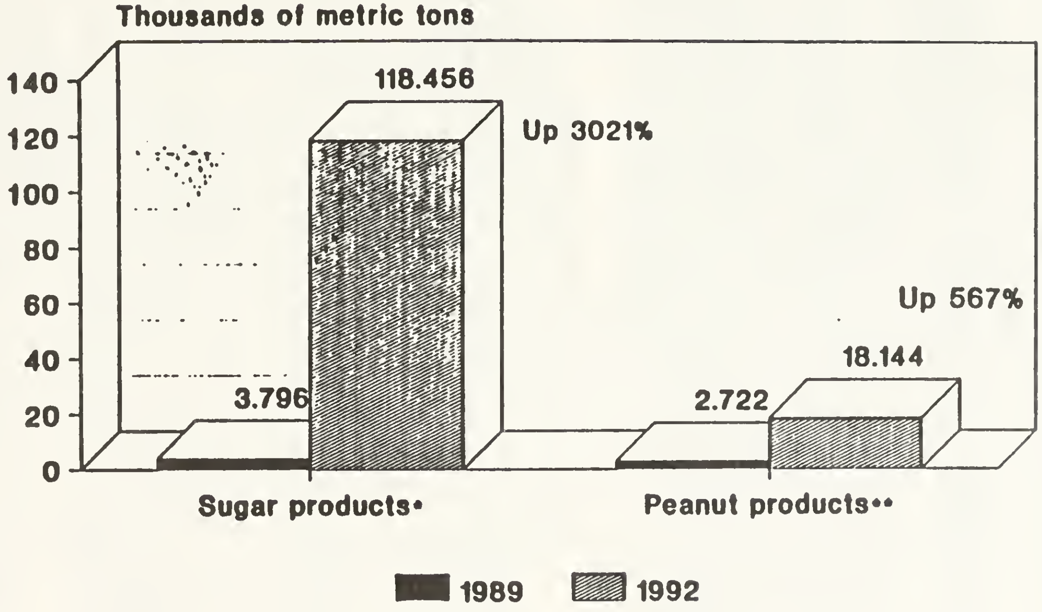
art A-2

Canadian Grain Imports Climb
Following Free Trade Agreement



Sources: USDA-FATUS 1992, North Dakota
Barley Council 1993

Canadian Processed Foods Imports Explode
Following Free Trade Agreement



* Products containing 60-99% sugar
** Peanut butter & peanut paste
Note: Canada has no peanut production

Sources: U.S. Sugarbeet Growers Assn. 1993
Georgia Peanut Council 1993

STATEMENT OF THE INTERNATIONAL SUGAR POLICY COORDINATING COMMISSION OF THE DOMINICAN REPUBLIC

INTRODUCTION

The International Sugar Policy Coordinating Commission of the Dominican Republic (Dominican Sugar Policy Commission)[1] is submitting this statement in response to the Finance Committee's request for comments on the North American Free Trade Agreement (NAFTA). The Dominican Sugar Policy Commission is strongly opposed to the provisions in NAFTA which provide Mexican sugar exporters with increased preferential access to the U.S. market.

These provisions (in the U.S.-Mexico Free Trade Agreement) increase Mexico's percentage share of the allocated tariff-rate quota on sugar imports and reduce the second tier duty on Mexican sugar imports under the tariff-rate quota. Such changes to the U.S. sugar import program will provide a windfall to Mexican exporters and would certainly harm those countries in the Caribbean and Central America whose economies are heavily dependent on sugar, particularly the Dominican Republic. The Dominican Sugar Policy Commission believes that if the United States were to enact corrective legislation, (or reach a diplomatic understanding with Mexico), such action would have the salutary effect of protecting the Dominican Republic's access to the U.S. sugar market, and that of other traditional suppliers in the Caribbean and Central America whose access is seriously threatened by the sugar provisions in NAFTA. This would also protect the guaranteed minimum quota established for off-shore suppliers in the 1990 Farm Act.

TREATMENT OF MEXICAN SUGAR IMPORTS UNDER NAFTA

It is the understanding of the Dominican Sugar Policy Commission that the U.S. Government initially contemplated substantially increasing the tonnage of sugar that Mexico could ship to the United States under the tariff-rate quota, but rejected this approach when it became apparent that it would be a windfall for a few Mexican sugar exporters. (Mexico apparently asked for increased access of 1.5 million tons while the U.S. initially considered giving Mexico a quota increase of 25–50,000 tons. Since Mexico is a traditional net importer of sugar, traders would simply have purchased lower-priced world market sugar and used it (on a substitution basis) to fill the additional quota at the premium prices available in the U.S. market.) Instead, the U.S. Government negotiated provisions whereby Mexico's sugar quota is increased subject to a determination of "net exporter" status and the second tier duty on Mexican sugar imports (16 cents per pound, raw value) will be staged down over fifteen years. A summary of the pertinent provisions is set out below:

> *Years 1 to 6.* Any year that Mexico is projected to be a surplus producer of sugar (i.e., production is expected to exceed consumption), its duty-free access to the U.S. sugar market will increase to 25,000 metric tons, roughly 3.5 times its current quota of 7,258 tons. The surplus producer status projection for each fiscal year must be made the preceding June. The U.S. 16 cent second tier tariff for Mexico will drop 15 percent during years 1 to 6.
>
> *Years 7 to 15.* The U.S. 13.6 cents second tier tariff for Mexico will be reduced to zero during years 7 to 15. Mexico will adopt the U.S. second tier tariff as a common external tariff on non-NAFTA sugar. In addition:
>
> > a. If Mexico *fails* to achieve surplus producer status for two consecutive years, including years 1 to 6, Mexico's potential access to the U.S. market will increase to 150,000 tons in year 7, and grow 10 percent per year to 322,000 tons in year 15. Mexico may export up to the proscribed amount in any year it is projected to achieve surplus producer status.
> >
> > b. If Mexico *does* achieve surplus producer status in two consecutive years, including during years 1 to 6, Mexico may export its entire exportable surplus to the U.S.
>
> *After Year 15.* There will be no limit on Mexican sugar exports to the U.S. (Presumably, rules of origin would discourage transshipment and a remaining common external tariff would discourage substitution of non-Mexican sugar by private producers, but verification and enforcement measures are uncertain.)
>
> *Sugar Blends and Sugar-Containing Products.* U.S. Section 22 limits on imports of these products would be converted to tariffs and the tariffs would be reduced to zero over 10 years.

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[1] The International Sugar Policy Coordinating Commission of the Dominican Republic is a quasi-governmental agency comprised of both public and private sector members under the chairmanship of the Secretary of State for Foreign Relations of the Dominican Republic.

FLAWS IN NAFTA SUGAR PROVISIONS

The Dominican Sugar Policy Commission is concerned primarily with the treatment of Mexican sugar imports in three main areas: the stage-down of the second tier duty, the substitution problems, and the lack of appropriate marketing and distribution restrictions. Each of these problem areas is addressed separately below, along with possible solutions. These solutions are not contained in NAFTA and therefore need to be addressed in legislation, if not diplomatically.

Stage Down of Second Tier Duty

The U.S. Government's agreement to stage down the second tier duty on Mexican sugar imports (16 cents per pound, raw value) over a period of fifteen years is extremely objectionable to Dominican sugar exporters since it would have the effect of increasing Mexico's share of the U.S. market at the expense of traditional exporters because the second tier tariff is the only effective control on the volume of imports.

Assuming world prices remain close to current levels of about 10.5 to 12.0 cents/pound, the effectiveness of the second tier tariff as a limitation on imports from Mexico would be lost in about ten years (or faster if world prices were to decline). At such time, exporters from Mexico could flood the U.S. market by satisfying domestic needs in Mexico with world market sugar or other nutritive sweeteners such as high fructose corn syrup (HFCS), and then shipping as much raw or refined Mexican sugar as possible to the United States.

Substitution Problems

There are several serious problems regarding "substitution": (1) Mexican traders could satisfy domestic needs with world market sugar, thereby freeing up Mexican sugar for shipment to the United States; (2) HFCS and other nutritive sweeteners could be substituted for sugar in domestic applications; and (3) sugar blends and sugar-containing products could be used in the place of raw and refined sugar when Section 22 protections are lowered. These substitution problems are of immense concern to the Dominican Sugar Policy Commission. Unless they are solved, in a few years the Dominican Republic and other traditional exporters in the Caribbean and Central America could be shut out of the U.S. market entirely. Moreover, failure to address these problems in an effective manner would have serious adverse consequences for the U.S. domestic industry as well.

During the negotiation process, the Dominican Sugar Policy Commission suggested that the best way to solve the substitution problems would be to suspend the stage-down of the second tier duty as long as Mexico is not "self-sufficient" in sugar production and/or to apply the reduced second tier rates only to imports of sugar and sugar-containing products from Mexico in amounts which exceed Mexico's total domestic consumption of nutritive sweeteners. For this formula to be effective, Mexico should not be able to substitute high fructose corn syrup and other nutritive sweeteners for sugar in domestic applications and be able to qualify for the reduced second tier tariffs. (Starting in 1975 a switch to HFCS occurred in the U.S. soft drink industry which caused a shrinkage in U.S. sugar imports of about 4 million tons and concomitant harm to off-shore suppliers.) For example, if Mexico's total domestic consumption of nutritive sweeteners (sugar, sugar blends, sugar mixtures, HFCS, glucose syrups, dextrose, etc.) were 5 million tons, its sugar production would have to be more than 5 million tons before the excess (only) would be eligible for the reduced second tier duties.[2]

Another suggestion was made to apply the reduced duty rates only to exports of sugar and sugar-containing products from Mexico in excess of Mexico's domestic consumption of nutritive sweeteners. This would have ensured that the benefits of the liberalized trade in sugar are not limited to a few traders. Moreover, it would protect the interests of the traditional exporters in the Caribbean and Central America, who have reliably supplied the United States with sugar during periods when it was often far more profitable to ship their sugar to other destinations. Unfortunately, the U.S. Government did not incorporate these suggestions into the agreement with Mexico.

The "tariffication" of the Section 22 quotas on sugar blends and sugar-containing products will further compound the substitution problems, since the Section 22 quotas were imposed precisely to control imports of sugar blends and sugar-containing products. Converting the Section 22 quotas to tariffs and then lowering the tariffs will erode the protection that Section 22 was designed to afford.

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[2] Mexico's domestic sugar consumption for 1990/91 was 4.19 million metric tons, raw value, and was expected to expand at about 3.5 percent a year to 4.8 to 5.0 million tons by 1996. To date, alternative sweeteners have not been significant factors in the Mexican soft drink industry, one of the world's largest, but their use could increase substantially. (Source: USDA Sugar and Sweetener Situation and Outlook Report, March 1991). However, an April 12, 1993, USDA study predicted a major expansion in Mexican sugar production as a result of NAFTA.

Marketing and Distribution Restrictions

The Food, Agriculture, Conservation, and Trade Act of 1990 (the 1990 Farm Act) established a guaranteed minimum import quota of 1.25 million tons for traditional off-shore suppliers. In addition, it provided that marketing controls would be imposed on domestic cane and beet sugar and crystalline fructose if anticipated fiscal year imports for consumption were less than 1.25 million tons. If the second tier tariff on Mexican sugar imports were to be staged down as described above, imports from Mexico could trigger marketing controls on U.S. sugar producers. This would lead to the anomalous situation where Mexican producers could produce as much as desired while U.S. producers would be subject to marketing controls. To prevent this unfair result, Mexican producers should be subject to the same marketing controls as U.S. growers. One of the stated objectives of the negotiations is to establish the framework for free trade throughout North America. Under such philosophy, creating a North American "common market" in sugar, Mexican sugar growers should not object to being subject to the same marketing controls as U.S. producers. To do otherwise would undermine Congress's express intent in the 1990 Farm Act to provide traditional off-shore suppliers with guaranteed minimum access to the U.S. market while preserving a viable domestic sugar industry.

SUGGESTIONS FOR CORRECTIVE LEGISLATION

The Dominican Sugar Policy Commission believes that it is essential to have effective legislation to address the problems with respect to the treatment of sugar under NAFTA in spite of the Administration's views on the subject. Apparently, during the negotiations with Mexico the Administration thought that Mexico would not qualify as a "net exporter" of sugar at any time soon and consequently that it was unnecessary to have meaningful safeguard arrangements in the agreement. Moreover, it now appears that the U.S. Trade Representative has backed away from President Clinton's position on the need for strong mechanisms to protect against import surges. (We refer to the Monday, March 22, 1993, issue of *The Journal of Commerce* in which Deputy Trade Representative Yerxa is quoted as saying that a "monitoring" and "consultation" mechanism is all that is needed.)

Unlike the Administration, some farsighted Members of Congress have recognized the problems associated with the treatment of sugar in NAFTA and have introduced a bill, H.R. 1403, intended to remedy such problems. The parallel Senate bill, S. 1155, cures many NAFTA ills but does not address the sugar problem. The bills are important because the situation is actually growing worse.

The need to have effective legislative provisions for specifically mandated actions to protect against surges of Mexican sugar imports is obvious when one reads the recently released Department of Agriculture (USDA) study on the Mexican sugar industry. This April 12, 1993, study, entitled "Mexico's Sugar Industry—Current and Future Situation," prepared by officials of USDA's Economic Research Service and Foreign Agricultural Service, warns that *Mexico is expected to have exportable sugar surpluses reaching 800,000 tons by year 14 of the agreement.* Furthermore, total annual production is expected to increase by over 1 million tons by year 14 as a result of $2 billion new investment in the Mexican sugar industry. This is a fundamental change in circumstances which must be addressed by Congress in the absence of a strong separate agreement with Mexico on import surges. (The current agreement provides basically for "monitoring" and "consultations" only.)

The Dominican Sugar Policy Commission submits that the corrective legislation should contain the following elements at a minimum:

(A) a "snap-back" of the second tier tariff under the tariff rate quota under specified circumstances;

(B) stand-by marketing controls on Mexican producers similar to those imposed on U.S. producers; and

(C) provisions to prevent the substitution of HFCS and other nutritive sweeteners for sugar when calculating Mexico's "net exporter" status.

(1) Trigger for Action.

Congress has already established a threshold for determining when irreparable injury will occur to traditional off-shore suppliers, that is, whenever total imports are projected to be less than 1.25 million tons, i.e. the "guaranteed minimum quota" established in the 1990 Farm Act. This should be used by the Finance Committee to specify when action must be taken. However, more is needed since Mexico's increased imports presumably would count against the "guaranteed minimum quota," thereby reducing the proportionate shares of the traditional supplying countries. Therefore, action should be triggered whenever it is projected that (1) total fiscal year imports for consumption are projected to be less than 1.25 million tons, and (2) traditional off-shore suppliers' share of the guaranteed minimum quota will be less that their traditional allocated share of the U.S. sugar import quota. (For example, the Dominican Republic's allocated share of the U.S. sugar quota is 17.6 percent. Under this formulation, action would be mandatory whenever the Dominican Republic's share of the "guaranteed minimum quota" fell below 220,000 tons, i.e. 17.6 percent of 1.25 million.)

(2) Required Action.

Since the second tier duty is the only effective control on imports, the President should be required to reimpose the duty whenever traditional suppliers' access is threatened as described above. However, Mexico should be allowed to avoid a "snap-back" if Mexico imposes stand-by marketing controls on Mexican producers similar to those imposed on U.S. producers under USDA's marketing allocation regulations. Thus, the Finance Committee should adopt language to mandate a "snap-back" of the second tier tariff on Mexican sugar imports under the tariff rate quota unless "substantially equivalent" marketing controls are in effect in Mexico whenever marketing allocations are in effect in the United States.

(3) Additional Legislative Provisions.

The Dominican Sugar Policy Commission believes that the legislation to be adopted should contain provisions to prevent the substitution of HFCS and other nutritive sweeteners for sugar when calculating Mexico's "surplus producer" status. Because the Clinton Administration has not yet been able to come to grips with the problem and to reach any diplomatic understanding with Mexico (apparently because of Mexico's hard-line position), it may seem more appropriate to incorporate the provisions determining Mexico's "surplus producer" status into legislation rather than hoping for a diplomatic cure. The Dominican Sugar Policy Commission is prepared to submit technical language to the Committee in this regard.

CONCLUSION

It is extremely important to the Dominican Republic that its sugar exports retain at least the minimum level of access to the U.S. market established by the 1990 Farm Act. Congress has recognized this and in order to accomplish this, it is necessary to enact corrective legislation as set forth herein. This would afford meaningful protections to Dominican sugar exporters and other traditional off-shore suppliers, and would prevent further damage to their economies.

STATEMENT OF THE SWEETENER USERS ASSOCIATION

The Sweetener Users Association is pleased to have the opportunity to submit its views on the likely impact of the North American Free Trade Agreement (NAFTA) on the U.S. sweetener economy.

The Sweetener Users Association represents U.S. food and beverage manufacturers who are industrial users of sugar and other sweeteners, and the trade associations representing such companies. We support the sweetener and sweetened product provisions that have emerged from the NAFTA negotiations. The Association is a member of Ag for NAFTA, a broad-based coalition representing the vast majority of U.S. farmers, ranchers and agribusiness firms, all of whom strongly support passage of the NAFTA.

THE NAFTA AGRICULTURAL PROVISIONS

The NAFTA calls for the elimination of all tariffs, quotas and licenses that act as barriers to agricultural trade between the United States and Mexico. There are no exceptions.

The NAFTA allows import-sensitive agricultural industries adequate time to adjust to free trade. The Agreement explicitly provides for a transition period of up to fifteen years before tariffs are eliminated for the most sensitive products.

The Agreement requires no changes in domestic farm programs for either country.

In keeping with the "no exception" mandate, all trade barriers on sugar and sweetened products eventually will be eliminated. Sugar, due to its import sensitivity, has been granted the longest transition—fifteen years. Moreover, tough rules have been established to protect our domestic sugar industry from sugar that is not produced in Mexico.

NAFTA SUGAR AND SUGAR-CONTAINING PRODUCT PROVISIONS

The Sweetener Users Association supports the sugar and sugar-containing product provisions of the NAFTA without change.

We do so for two reasons. First, the prospects for increased sales of sugar-containing products to Mexico as a result of the NAFTA are enormous. Second, the sugar provisions of the NAFTA, along with the supplemental agreement on import surges, afford significant protection to the domestic sugar industry during the fifteen-year transition period.

SUGAR-CONTAINING PRODUCTS

According to a recent Department of Agriculture study entitled "Mexico's Sugar Industry—Current and Future Situation," exports of sugar-containing products to Mexico will expand sharply as a result of a ten-year phaseout of the tariffs on manufactured food and beverage products which currently range from 10 to 20 percent, ad valorem.

This report projects total U.S. sugar-containing product exports to Mexico to reach $2.2 billion in the year 2008. At the same time, Mexican sugar-containing product exports to the United States will only reach $545 million. The table below graphically demonstrates that, therefore, there will be a significant net balance of trade of $1.6 billion in favor of the United States by the end of the transition period.

U.S. EXPORTS OF SUGAR-CONTAINING PRODUCTS TO MEXICO

[Million dollars]

Item	1990	1991	1992	Projected 2000	Projected 2008
Cocoa & chocolate products	32	47	53	225	480
Cereal & bakery products	23	30	67	400	850
Confectionery	18	20	23	50	105
Miscellaneous edible preparations	41	53	79	340	725
Total selected sugar-containing products	114	150	222	1015	2160
Imports of sugar-containing products from Mexico	73	85	96	250	545
U.S. trade balance	+41	+65	+126	+765	+1615

Source: "Mexico's Sugar Industry—Current and Future Situation," by Fred Kessell, Peter Buzzanell and Ron Lord, USDA, April 12, 1993.

RAW AND REFINED SUGAR

The NAFTA provisions relating to raw and refined sugar were among the most difficult parts of the Agreement to negotiate. The transition rules for sugar are the most unique and the most complicated of the entire range of products covered by the NAFTA. Raw and refined sugar are among only a very few sensitive products that will have a fifteen-year transition period. No other product is subject to the "net surplus producer" restriction during the transition period.

TRANSITION PERIOD: YEARS 1–6

In the initial six years of the Agreement, Mexico's sugar exports to the United States will be limited to its current export allocation of 7,258 metric tons. However, in any year that Mexico reaches net exporter status during the initial six-year period, it would be allowed access for its net exportable surplus, up to 25,000 tons.

During Years 1 through 6, the United States will reduce its second tier tariff on sugar imports from Mexico by 15 percent, from 16 cents per pound to 13.6 cents per pound.

TRANSITION PERIOD: YEARS 7–15

Beginning in Year 7, Mexico will be allowed to ship its net exportable surplus to the United States duty-free, up to a maximum of 150,000 tons. This ceiling will grow 10 percent per year over the remainder of the 15-year transition.

If Mexico reaches net exporter status for two consecutive years at any time during the transition period, beginning in Year 7 or the second year of net exporter status, whichever is later, it can ship its total exportable surplus to the United States duty-free.

Mexico will align its tariff regime with that of the United States by Year 7 of the Agreement, implementing a tariff quota with rates equal to those of the United States.

ECONOMIC IMPACT—SUGAR

The net effect of these provisions is that Mexico cannot ship any more than 25,000 metric tons annually to the United States during the first six years of the Agreement. This amount of sugar is statistically insignificant in comparison to the minimum 1.1 million metric ton (1.25 million short ton) annual import quota or the 8.3 million metric tons (9 million short tons) of sugar that are consumed each year in the United States.

Moreover, by the beginning of Year 7 Mexico must harmonize its external tariff on sugar imported from countries other than the United States. In essence, Mexico will form a "common market" with the United States on sugar by the beginning of the 7th year of the Agreement. This will tend to equalize sugar prices between the United States and Mexico and, consequently, offset the incentive for Mexico to export sugar to the United States, since there will be no price premium to be gained.

Even with these protective provisions, Mexico must become a net surplus producer in order to avail itself of additional export sales to the United States. There is significant debate as to whether Mexico is capable of producing more sugar than it consumes. Currently, Mexico is a deficit producer of sugar and most economists believe that that trend will likely continue for the foreseeable future.

Whether Mexico will become a net exporter is very difficult to predict. It will depend on a number of public policy and private investment choices in Mexico that are difficult to forecast. Numerous economic forecasts have been advanced on this subject. The USDA study referred to earlier states that it will require hundreds of millions of dollars of investment to modernize the Mexican sugar industry and achieve levels of efficiency required to be competitive. The study indicates that under the most optimistic conditions, including higher sugar production, decreased sugar consumption and HFCS substitution by the soft drink industry, Mexico may only have a net surplus of 800,000 tons by the year 2008.

We believe that the opening of the U.S. market to Mexico is unlikely to have any considerable effect on U.S. sugar producers. Even given the best case scenario described in the USDA study, this level of Mexican imports is still below total sugar quota imports and thus increased imports of Mexican sugar would simply displace imports of sugar from other traditional suppliers. This is not an ideal situation, but it represents another protection for domestic sugar growers unless the sugar program is changed as a result of legislation or an international agreement.

SUPPLEMENTAL AGREEMENT ON IMPORT SURGES

In addition to the significant safeguards that are built into the NAFTA sugar provisions, there is now also a supplemental agreement on import surges. While the significance of this supplemental agreement should not be overstated, it does institutionalize a mechanism for dealing with sensitive products when imports enter the domestic market in such volume as to cause undue instability in the form of depressed market prices or declining employment in a particular industry. Also, a working group established under the agreement will review how well NAFTA's safeguard provisions are working and can make recommendations for revisions, as appropriate.

MEMORANDUM OF UNDERSTANDING

In spite of the special provisions for sugar, the domestic sugar industry has proposed a number of changes designed to materially alter the basic provisions of the sugar agreement. Apparently, the sugar growers have requested our negotiators to conclude a memorandum of understanding with the Mexicans expanding the definition of "surplus producer" to include production and consumption of corn sweeteners.

We are greatly concerned that any changes at this time could threaten not only the sugar and sugar-containing product provisions but other elements of the Agreement as well. In the United States, sugar statistics only include sugar for supply and demand calculations. The inclusion of corn sweetener data for political purposes distorts the statistics and the intent of the Agreement.

If the sum of Mexico's sugar and corn sweetener production has to exceed the sum of its sugar and corn sweetener consumption in order for that country to be judged a "net surplus producer," then it is unlikely to ever qualify. Much of the corn sweetener will be imported from the United States and would appear in the consumption figure but not in production. Thus, Mexico would never achieve net exporter status and only the minimum quantity would be allowed to enter the United States during the transition period.

It is logical to predict that the Mexicans would not favor substantive changes to the sugar provisions. Irregardless of our assessment and that of many U.S. analysts, the Mexicans believe that they are capable of becoming a net exporter of sugar. Thus, any changes in the implementing legislation that would limit the value of this negotiated benefit would in all likelihood lead to a withdrawal of concessions on the Mexican side.

CONCLUSION

The Sweetener Users Association supports the NAFTA sugar and sugar-containing product provisions, without change.

Based upon our assessment of the requirement that Mexico become a "net exporter" during the transition period, we do not believe that there is a significant threat that Mexico will flood the U.S. market with raw or refined sugar.

With respect to sugar-containing products, we are very optimistic about the opportunity to supply Mexico's growing demand for these products.

During the transition period, the supplemental agreement on import surges establishes an additional mechanism for consultation.

The removal of trade barriers to sweeteners and sweetened products under the North American Free Trade Agreement would have favorable economic effects on consumers, as well as on efficient sugar growers and processors, corn refiners and corn growers, and manufacturers of sweetened products and beverages. The U.S. sweetener industry is competitive and will grow and prosper in an economic environment less hindered by restrictions on trade.

Thank you for the opportunity to submit our views on this most vital issue.

STATEMENT OF THE TRANSPORTATION TRADES DEPARTMENT, AFL-CIO

Introduction

The promises of the North American Free Trade Agreement are enticing: open markets, streamlined trading, prosperity for all. Yet the reality reveals the difficulty in achieving so much so easily. If these benefits were always there for the asking, why have they not been seized upon before? The answer is simple. The conclusions of NAFTA proponents are false. Based on overstated numbers, unheeded warnings and unfounded assumptions, NAFTA betrays the interests of workers on both sides of the border. It threatens massive job loss in the United States, while offering little hope for boosting either wages or working conditions for Mexican workers. And environmental degradation only adds to the potentially tragic effects of the agreement.

Where does the promise go wrong? A history lesson from Europe provides the quick answer. There, the European Community has learned that nations with lower standards of living cannot be integrated into a trading community without correcting the economic and social conditions that created the disparity in the first place. As House Majority Leader Richard Gephardt (D-MO) has pointed out, in the post-Cold War world the focus of trading agreements has expanded beyond tariffs to encompass "social and economic standards." The European common market is extremely sensitive to varying levels of development and the social consequences of change. It provides transition programs that, among other issues, address basic labor, human rights and environmental protections as a means to bring equal partners into the trading community. In other words, these structural adjustment programs help a country practice fair trade when it joins the free trade community.

NAFTA negotiators in the Bush administration failed to study their history. Wage disparity, government-controlled unions, and lax enforcement of environmental and worker safety regulations in Mexico create ripe conditions for exploitation of both workers and the environment. Given the political atmosphere in Mexico — and lack of adjustment programs in NAFTA — very little of this will change. The Mexican government has the power to artificially depress wages without regard to worker productivity, and to ensure that enforcement of whatever regulations are on the books remains weak. With no real market forces at work, truly competitive trade cannot be achieved. None of these problems were addressed in NAFTA negotiations. And none have been effectively addressed in the inadequate side agreements offered in response to protests from the labor and environmental communities.

As a vital link in the pipeline of goods through production to market, the U.S. transportation industry will be seriously damaged by NAFTA's passage. Moving raw materials to intermediate manufacturers, component parts to assembly plants and, finally, finished goods to market, our domestic transportation sector stands to lose every step of the way. Liberalized investment regulations and low wages virtually taunt companies to move to Mexico and abandon U.S. workers. Transportation workers face a double threat: a large segment of their customer base will be lost and they must compete with the low wages and weak safety regulations of the Mexican transportation industry.

What follows discusses these issues in more detail. The conclusion, however, is apparent: NAFTA, as negotiated in the primary and side agreements, will harm the U.S. economy and U.S. workers. Congress must reject any such pact.

Leveling the Playing Field by Bringing One Side Down

The Lure of Low Wages, Lax Regulation

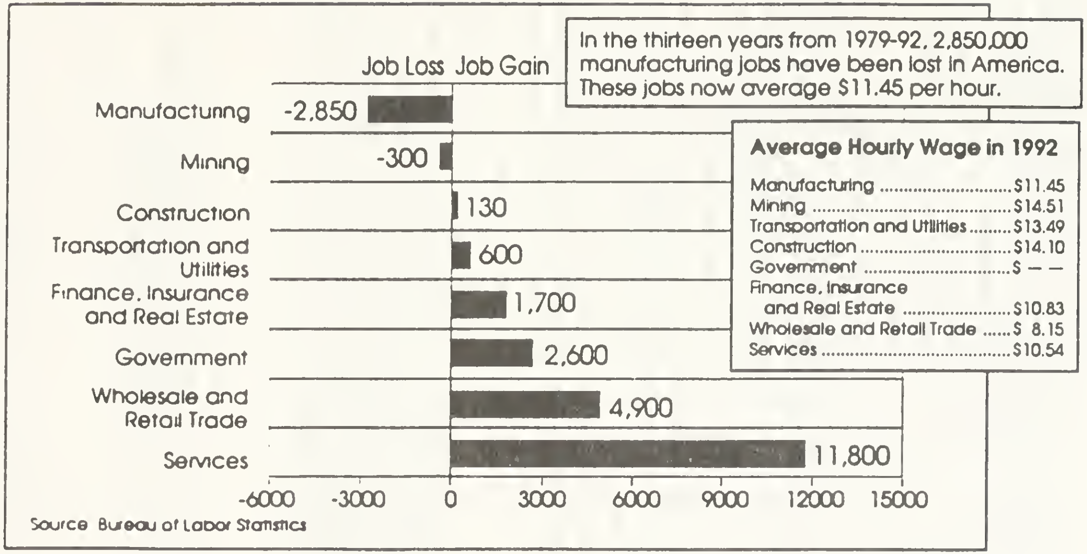
From 1979 to 1992, the United States lost 2.9 million jobs in its manufacturing sector.

Already economists are warning that the nation is risking its capability to meet its own needs in times of war, be it a military or economic one. NAFTA promises to hasten the exodus of manufacturing from the United States. Even without the agreement in effect, numerous manufacturers have headed south. The lure of low wages and lax environmental and workplace safety regulations is too much to resist. General Motors, Smith-Corona and Zenith are but a few examples of companies that have closed plants in the United States and moved them to Mexico. Since 1971, investment in Mexico has grown from 120 maquiladora plants along the U.S.-Mexican border employing 19,000 workers to, in 1991, 2,000 plants and half a million workers.

The automotive sector, where the loss of one U.S. employee affects the jobs of an estimated 10 additional workers, serves as a perfect example of the bleeding of our high wage manufacturing industries. In 1974, General Motors

Employment Change by Industry, 1979 to 1992

(In Thousands)



In the thirteen years from 1979-92, 2,850,000 manufacturing jobs have been lost in America. These jobs now average $11.45 per hour.

Average Hourly Wage in 1992

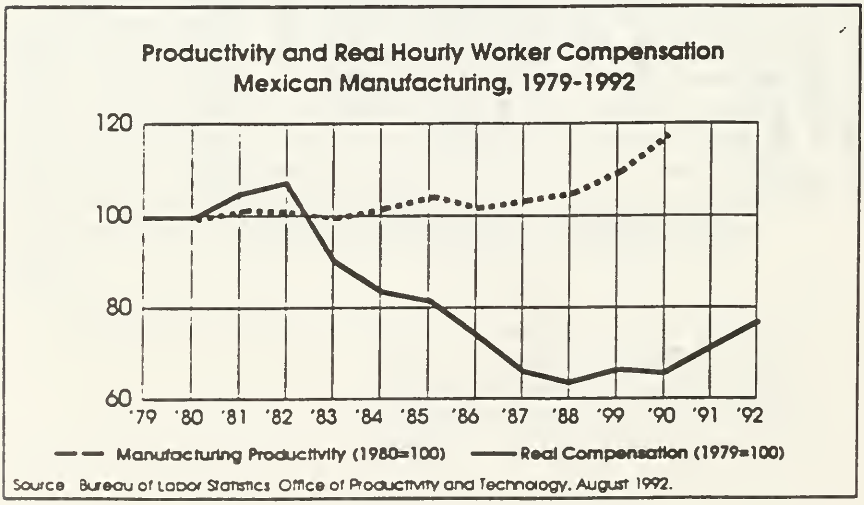
Manufacturing	$11.45
Mining	$14.51
Transportation and Utilities	$13.49
Construction	$14.10
Government	$ — —
Finance, Insurance and Real Estate	$10.83
Wholesale and Retail Trade	$ 8.15
Services	$10.54

Source Bureau of Labor Statistics

began building three plants in Juarez, Mexico. One year later GM's plants employed 7,000 workers earning pennies an hour. By 1991, GM operated 30 plants, making it the largest private employer in Mexico with 56,000 workers. With its ill conceived treatment of key automotive issues such as export performance requirements, domestic content, tariffs, corporate average fuel economy ("CAFE"), and rules of origin, NAFTA will only exacerbate a problem that is crippling America's automotive work force.

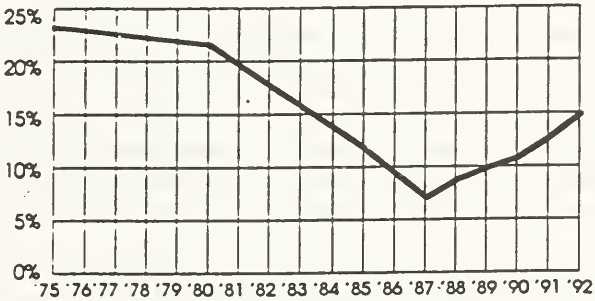
Low wages are the motivating force. In 1990, the average U.S. manufacturing wage was $14.77 an hour. Mexico's average was $1.80. Workers in the maquiladora border area traditionally earn even less — averaging $1.25 an hour in 1990 — even though these workers were allegedly benefiting from the same type of investments NAFTA proponents claim will spur economic equity. Between 1986 and 1992, Mexican employees in maquiladoras continued to earn significantly less (up to 44 percent less) than their counterparts throughout the rest of Mexico. Many of the Mexican workers in these border towns live in total poverty, with no electricity, sewers, running water or schools. They are exposed to disease and dangers both on and off the job that would outrage the U.S. public, but apparently raise little concern from their U.S. employers. Clearly the evidence shows that freer trade with Mexico is depressing wages on both sides of the border.

Companies also save money by avoiding the costs of U.S. environmental and workplace safety regulations. The dumping of toxic waste, the free flow of sewage and other environmental hazards have turned the maquiladora area into what *Business Week* calls a "2000-mile garbage dump." What little regulations Mexico has it does not consistently enforce. The country lacks the infrastructure for pollution control. A pro-NAFTA



**Productivity and Real Hourly Worker Compensation
Mexican Manufacturing, 1979-1992**

Source Bureau of Labor Statistics Office of Productivity and Technology, August 1992.



Mexican Hourly Compensation Costs in Manufacturing as a Percentage of United States Costs 1975-1992

Source Bureau of Labor Statistics. Office of Productivity and Technology. March. 1993

business group, the Border Trade Alliance, places a $5.5 billion price tag on the cost of preparing the border for free trade through pollution control, the building of sewage treatment plants and hazardous waste disposal sites, and training of enforcement personnel. Yet the Environmental Protection Agency asked Congress for only $240 million in 1993 to deal with this environmental problem. Meanwhile, the pollution does not honor borders; it is the one import subject to no tariff, but which carries a heavy cost.

Likewise, Mexican workers are paying the price for unsafe conditions on the job. They can be exposed to life-threatening chemicals without notice or protection. They risk potential injuries because of poor training and weak workplace safeguards. And, they must suffer through all this because they lack strong, independent unions that can protect their rights.

A Discord Between Pay and Productivity

However hard Mexican workers labor, they have little impact on the wages they receive.

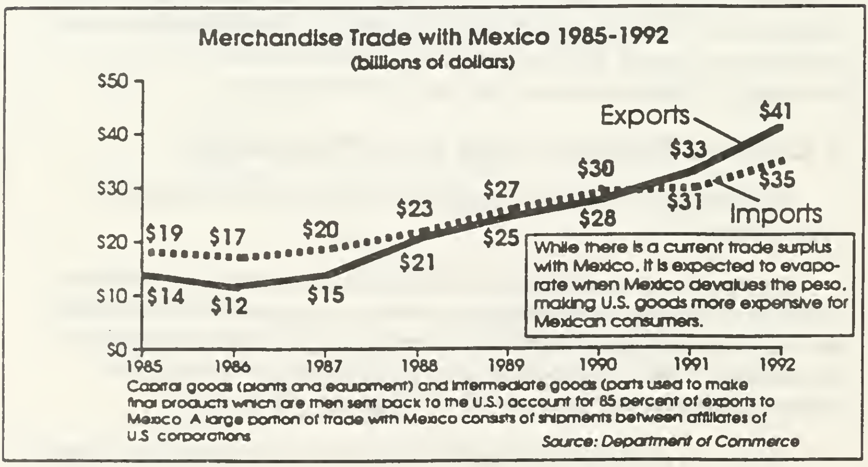
A government-dominated alliance of business, labor and peasant organizations has broken the traditional tie between wages and worker productivity. Wages are artificially set rather than responding to market forces. While productivity in Mexican export industries is 80 to 100 percent of that in similar U.S. industries, wages are 10 to 15 percent of U.S. levels.

Thus, even as Mexican workers increase their productivity, their wages remain artificially low. Since NAFTA and its side agreements do not address these fundamental flaws, Mexican workers cannot expect to prosper from increased investment, but rather to suffer as their productivity gains are siphoned off in profits for investors. With this suppression of wage growth, the notion that Mexican workers will create a large market for U.S. goods — and thus jobs for U.S. workers — becomes ludicrous.

Though Mexican workers may labor for low wages, they are not necessarily working at low-tech jobs. A recent study by Professor Harley Shaiken of the University of California, San Diego, disputes the pro-NAFTA contention that U.S. workers will miraculously discover a wealth of high-tech, high-wage jobs waiting for them when low-tech jobs move to Mexico. While not universally true, "the capability of moving advanced plants to Mexico has been repeatedly proven in complex, high-tech industries," Shaiken writes.

"In the maquiladora industry employer federations conspire to hold wages down," he observes. "In large maquiladora centers such as Tijuana, employers meet regularly to agree upon salary ranges and to avoid engaging in competitive wage bidding for workers. Rather than raising wages to combat turnover — the way a labor market theoretically operates — these associations fix wages and let turnover fall where it may, often as high as 10 to 15 percent a month."

Mexican workers have proven quite capable of achieving high productivity and quality levels — and without the concomitant increase in wages. Shaiken cites two Sony television assembly plants, one in Tijuana and the other near San Diego. Despite comparable quality and productivity, wages in the Mexican plant are less than $1 an hour while wages in the U.S. plant are around $10 an hour. Low wages more than compensate manufacturers despite a learning curve of several years.


Merchandise Trade with Mexico 1985-1992
(billions of dollars)

While there is a current trade surplus with Mexico, it is expected to evaporate when Mexico devalues the peso, making U.S. goods more expensive for Mexican consumers.

Capital goods (plants and equipment) and intermediate goods (parts used to make final products which are then sent back to the U.S.) account for 85 percent of exports to Mexico. A large portion of trade with Mexico consists of shipments between affiliates of U.S. corporations.

Source: Department of Commerce

Tricks Behind the Promised Treats of Economic Growth

Whatever U.S. workers remain in manufacturing positions will be pressured to reduce wages under the threat of employers moving their jobs to Mexico. One fourth of 455 executives interviewed by' the *Wall Street Journal* admitted that they probably would use the threat of NAFTA as a negotiating tool to reduce wages and change working conditions.

The current trade surplus with Mexico is misleading regarding the potential for economic growth. A closer examination reveals that the export of capital goods to Mexico has increased sharply as manufacturers set up shop. Currently, capital goods such as machinery and equipment and intermediate goods such as supplies and components account for 85 percent of exports to Mexico. Only 15 percent of U.S. exports to Mexico are finished consumer goods, dispelling the myth that Mexico is a growing export market. This surplus, then, is destined to fall since capital investments will at some point level off and be surpassed by the consumer goods they allow Mexico to produce and export back into the United States. Moreover, economists predict that Mexico will soon devalue its peso, eliminating the small trade balance and making the cost of U.S. goods more expensive for Mexican consumers.

A Massive Outflow of Jobs and Capital

With all these factors in mind, the Economic Policy Institute (EPI), which was co-founded by Labor Secretary Robert Reich, estimates that the United States will lose 550,000 jobs and $44 billion in capital to Mexico over the next decade. The job loss is directly tied to the increased stability of and opportunity for capital investments in Mexico, an aspect of the pact that is more threatening than changes in trade policies. Predictions of job creation by NAFTA proponents fail to account for this loss of capital and its effect on the U.S. manufacturing sector. Even the *promise* of NAFTA is drawing capital. By 1989 American investment in Mexico totaled $21 billion, accounting for nearly two-thirds of all foreign investment in that country. This loss of capital and future capital losses will further restrain the opportunities for job creation in the United States.

Ripple Effects Threaten a Tidal Wave of Disaster

Even if transportation were not part of NAFTA, this massive loss of jobs alone would severely impact transportation workers. As manufacturers move final assembly plants to Mexico in order to reduce labor costs, plants producing intermediate components are not far behind. This way manufacturers gain lower costs at each stage of the production process. The loss to the U.S. transportation industry is compounded each step of the way, undermining the customer base of an industry that already has suffered massive job erosion over the past 12 years. The final insult, of course, is that transportation workers will not suffer merely from the effects of NAFTA; they also are under attack by the agreement itself.

Transportation Labor on the Front Line

A Motor Carrier Terror

No sector of the U.S. transportation industry — trucking, bus, rail or landside maritime — is immune from NAFTA's potentially devastating effects. The trucking industry and its workers, however, face the most immediate threat, as does the public on the nation's highways. Under NAFTA, Mexican truck drivers will be able to traverse the country in a new international traffic zone that essentially has no boundaries. Once Mexican drivers enter the country, there is little to stop them from engaging in illegal "cabotage," or point-to-point service. Enforcement of these provisions is left to already overburdened state and local authorities, who have neither the time, resources, or knowledge of complex laws and regulations to adequately address the problem. With the eventual lifting of investment restrictions, U.S. companies will be able to own both the manufacturing plants and the trucking companies, and thus exploit those who *make* and *move* the goods. Products could be produced and transported from Nuevo Laredo to Chicago without ever being touched by U.S. workers.

As in the manufacturing sector, the wages of Mexican transportation workers are a major attraction. Mexican truck drivers in Zone A (northern most region of Mexico) earn about $7 a day, while U.S. truck drivers earn around $13 an hour, not including the cost of health insurance, pension and other benefits. Under NAFTA, Mexican truck and bus drivers could work full time in the United States and not be covered by American minimum wage laws. And in the bus industry, NAFTA potentially paves the way for U.S. citizens living in the southern most regions of America to take advantage of the liberalized trade barriers by boarding low-wage, poorly regulated buses in Mexico to travel back to the U.S. These low-cost alternatives raise little doubt that Mexican motor carriers will seize a considerable amount of cross-border business under NAFTA at the expense of jobs throughout the entire U.S. transportation industry.

But NAFTA risks more than jobs; it could cost lives. Nowhere in the agreement are Mexican companies required to meet the extensive safety and training requirements found in the United States. Americans are supposed to rely on a process called "regulatory harmonization" to address the well documented differences between U.S. and Mexican labor, environmental and safety standards. NAFTA is striking in what it does not address adequately: drug testing; hours of service; braking systems; insurance requirements; licensing and certification, and hazardous materials transportation. Mexican truck and bus drivers can enter the country using a Mexican commercial driver's license (CDL), which falls far short of U.S. standards on significant points:

- Age requirements. Mexico grants its CDL to drivers as young as 18; the minimum age in the United States is 21 years. Risk taking, and thus odds of accidents, are statistically higher with younger drivers.

- Language requirements. U.S. licensees must be able to read and speak

English in order to understand highway traffic signs, respond to official inquiries, and make entries on reports and records. Mexican drivers may enter the country without knowing any English — a fact that has significant implications should a hazardous material spill occur.

- Safety requirements. U.S. drivers must demonstrate specialized knowledge and skill to operate specific equipment such as multiple-trailer trucks or to transport placarded hazardous materials. Mexican requirements are nonexistent or inadequate.

- Information exchange requirements. In the United States, driving records are accessible by computer so problem drivers can be identified. In addition, drivers hold a single license, so they cannot hide a poor driving record behind multiple licenses. It appears that Mexican drivers could carry more than one license, and thus have more than one driving record.

Mexican trucking equipment, particularly among the small independent carriers, is older than most used in the United States, raising not only safety issues but also questions about the lack of pollution control features. NAFTA also fails to address the issue of unequal truck size and weight standards — which could result in increases in both during the harmonization process. These safety threats will be in addition to the ones the nation currently faces even though it has substantial safety regulations applying to its own motor carriers. Given that U.S. highways already bear the scars of unsafe, undercapitalized motor carriers operating in a cut-throat, deregulated business climate, it is inconceivable that NAFTA will somehow improve the enforcement of safety regulations. Instead, it must be recognized that NAFTA will only increase the dangers of traveling on U.S highways for all concerned.

Implications Immense for Railroads

NAFTA's implications in the rail sector are immense and are cause for significant concern. As rail carriers watch the profits accrue to their trucking competitors in the United States and Mexico, they soon will be arguing for a "seamless" transportation system that allows them similar access to Mexico's cheap wages. Given the premise of "free trade," what will stop them from achieving this suspect goal? But behind the rhetoric, the railroads truly will be using liberalized trade arrangements under NAFTA to potentially:

- gut U.S.-Mexico operating arrangements relating to crew changes;

- contract out to Mexico maintenance of way, signal maintenance and repair, shop craft and other work;

- sunset vital Interstate Commerce Commission oversight responsibilities; and

- pursue new U.S.-Mexico rail investment schemes that gut the present international freight operating arrangement in the pursuit of the low wage advantages offered in the Mexican work force.

Rail carriers also must fear the same forces that will drain manufacturing jobs — and thus commercial traffic — from the United States. As U.S. companies accelerate the move of production facilities to Mexico, long-haul freight may be impacted even more quickly than the traffic that motor carriers traditionally carry.

Threats to Landside Maritime

With the U.S. maritime industry and its employees already suffering under destructive policies, NAFTA's effects will deepen their troubles. By opening investment opportunities in Mexico that promise higher returns due to low wages, NAFTA could deliver a critical blow to U.S. intermodal ports and landside maritime services. With U.S. and other foreign investors funding the building and expansion of Mexican intermodal ports, an increased diversion of traffic from the United States to Mexico is likely to follow. This traffic diversion becomes an even greater concern as the Mexican motor carrier and rail sectors become more efficient and better able to handle greater volumes of business from port to land. NAFTA therefore threatens not only landside maritime jobs, but the economic security of U.S. intermodal port operations, and thus potentially U.S. national security as well.

The Bottom Line

It is inconceivable that U.S. companies and their employees' can compete with the substandard wages and working conditions of Mexican transportation workers. There is no scenario in which trade liberalization does not add up to economic hardship for transportation companies and significant job dislocation on the U.S. side of the border with no associated benefit for the nation as a whole.

Distorting the Democratic Process

Judging a book by its cover can be foolhardy, however, a quick glance at NAFTA's major private proponents does little to decrease the worry that U.S. companies will abandon the country's workers and rush to exploit Mexico's workers and environment. The lobbying effort for NAFTA has attracted tens of millions of dollars from the Mexican government and U.S. corporations, leading to what the Center for Public Integrity calls a distortion of the democratic process. This lengthy and expensive lobbying campaign has "out-gunned" anti-NAFTA forces, says Charles Lewis, chairman and executive director of the center, who adds that these well funded corporate forces are working toward making NAFTA opponents become "trivialized as almost caricature-like figures."

All but one of the state captains of USA*NAFTA, a major pro-NAFTA organization in the United States, are among the 500 largest firms in the country. The Institute for Policy Studies has analyzed their records and found that most have been eliminating jobs over the past three years, with a number moving to Mexico, where the majority of state captains already have significant investments. In addition, an assortment of USA*NAFTA leaders are known polluters, have violated workers rights in Mexico or have conducted anti-union activities in the United States. "NAFTA's passage would advance certain narrow individual corporate interests, often to the detriment of communities, states and North America as a whole," the institute concludes.

Side Agreements: Much Ado About Nothing

The hope that NAFTA could be corrected via so-called "side" agreements has faded. On all the critical issues — wage disparity, labor standards, environmental protection, and trade adjustment programs and their financing — these supplemental accords fail. Moreover, the labor side agreement actually weakens existing remedies available under existing U.S. law.

Currently, a violation of labor rights and standards under the Generalized System of Preference, the Caribbean Basin Initiative, the Overseas Private Investment Corp. and the amendments to Section 301 of the 1988 Trade Act are considered "unfair trading practices." A violation of these rights and standards can result in the loss of trade and investment benefits. For U.S. citizens concerned with environmental protection NAFTA fails as well. The Sierra Club declared the environmental side accord flawed because, among other things, "penalties come after a tortuous process that we fear may never be used against law breakers."

The labor accord calls for the creation of a tri-national commission which would be saddled with a burdensome and vague appeals process and unspecified sanction powers. None of the mechanisms set up to seek remedies allow for the enforcement of internationally-recognized worker rights and labor standards, meaning the commission only can respond to a "persistent and unjustifiable pattern of non enforcement" of a country's *own* labor standards. And in all instances, remedies can only be sought in cases which involve "mutually recognized labor laws" and which are "related to trade."

The labor side agreement fails to protect a worker's right to join and freely participate in democratic labor organizations, to organize and bargain collectively, and to withhold labor through strikes. In negotiations, Mexico and Canada did not even want these weak powers in the supplemental accords. But even if the U.S. position were to prevail in the accord's implementation, the commission and its four bureaucratic layers would be useless tools to seek remedies and equalize the grossly uneven economic and social factors that will only hasten the transfer of good wage jobs from the U.S. to Mexico. Mexico's own Commerce Secretary, Jaime Serra Puche, agrees: "The time frame of the process makes it very improbable that the stage of sanctions could be reached."

NAFTA Must Be Defeated

Creating a strong North American economy is a legitimate and worthwhile goal. NAFTA, however, will not achieve it. Instead, it threatens to cause great harm to the U.S. economy and to erode the jobs and living standards of U.S. workers. As EPI President Jeff Faux recently wrote in the *Washington Post*, " . . . it is perfectly consistent to be in favor of free trade and against NAFTA." Congress and the American public cannot allow this devastation to occur. NAFTA must be rejected as an agreement that violates the ideals and principles of the United States and its working men and women.

STATEMENT OF THE WHIRLPOOL CORPORATION

Whirlpool Corporation, the world's largest manufacturer of major home appliances, strongly supports NAFTA as written. We market to over 120 countries with major production facilities in 11 countries, including Canada and Mexico. NAFTA is important to our short and long term competitive posture and complements our global organizational structure which includes a North American Appliance Group.

NAFTA provides many positive provisions which will enhance the business opportunities of U S. companies against global competition. For example, significant appliance rules of origin would require major investment in North America by foreign competitors planning to set up manufacturing operations. This would translate into more North American jobs. In addition, improvement in border clearing procedures, safeguards pertaining to intellectual property rights, liberalization of past Mexican restrictions on U.S. carriers, a phase-out of tariffs and a host of other provisions will enhance opportunities to sell U.S. goods and components in Mexico.

Whirlpool Corporation, our employees, and suppliers are already benefiting from the liberalization of trade barriers by the Mexican government during the last six years. In 1987, we established a joint venture with a valued Mexican partner (Vitro S.A. de C.V.). Through this partnership we established distribution channels for U.S.-built goods and a strategic partnership to market Mexican-built products (most of which are manufactured with a majority of U.S. components and purchased primarily by Mexican consumers). We believe that a positive result of this strategic partnership has been to help stabilize longer term job prospects at Whirlpool's U.S. factory locations and among our supplier base.

Because of our strategic partnership, exports of U.S.-built Whirlpool products have increased by 160-fold since 1987. There has been a substantial demand for U.S.-built Whirlpool products in Mexico and our exports enjoy a nearly 2 to 1 dollar advantage over Mexican appliance imports under our joint venture agreement. We expect these U.S. exports to increase by approximately 5% - 6% annually over the next few years. For a variety of reasons, Whirlpool added 1,700 employees at our U.S. plant locations this year. Our continued and growing trade in Mexico was a contributing factor.

This growing Mexican market could be improved even more with the implementation of NAFTA, since the improvement in Mexican markets will be enhanced by the elimination of 20% Mexican appliance tariffs over the next ten years. It is important to maintain this 10 year phaseout of Mexican duties, since any immediate elimination of appliance tariffs would destroy a budding industry in a developing country because a mature U.S. industry would flood the Mexican market.

In the absence of NAFTA, there will be no removal of Mexican appliance tariffs. In fact, the Mexicans have the option to raise their appliance rates up to 50% under current General Agreement on Tariffs and Trade (GATT) arrangements. This scenario would be inhibiting to any future trade opportunities at best and potentially devastating to any future trade with Mexico at worst. In short, it could threaten jobs at our U.S. plants and among our U S. suppliers.

The failure of the U.S. Congress to pass NAFTA would force Mexico to look to other major trading partners for free trade pacts around the world. We are aware of several trade delegations from Mexico who have recently made exploratory visits to the Far East. We are also aware that the Koreans have been making enormous increases in refrigerator sales in Mexico. These Korean increases approximate 40% annually, and now account for 10% of the market from 0% five years ago.

We are in a unique window of time. The U.S. Congress has the opportunity to promote the long term, competitive posture of our nation by approving this important North American Trade Agreement. NAFTA is essential to counterbalance the powerful economic trade pacts which are developing in Europe and Asia. Passage of NAFTA could also enhance prospects for a hemispheric trade pact. This would further enhance prospects for new markets for U.S. built products in Central and South America.

According to the International Trade Commission, the NAFTA will strengthen U.S. manufacturers of appliances against global competition. Most major independent studies indicate that U S. employment in general will increase as a result of NAFTA. As a U.S. headquartered appliance manufacturer with numerous global locations and expansion plans, we strongly endorse NAFTA as an important link to our future business opportunities and successes. As such, we strongly encourage your support and endorsement of this important and historic agreement.

Thank you for the opportunity to comment. For further information please contact:

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